Key Issues and Trends In Housing

February 2019

Key Issues and Trends

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This document is a chart book that highlights 10 key housing issues and trends in Minnesota. It provides a lot of information, but readers can review it at various levels of detail. The charts are largely self explanatory so they can be reviewed quickly; however, for those who want to study them more closely, each chart includes explanatory notes and additional context in the text below the chart.
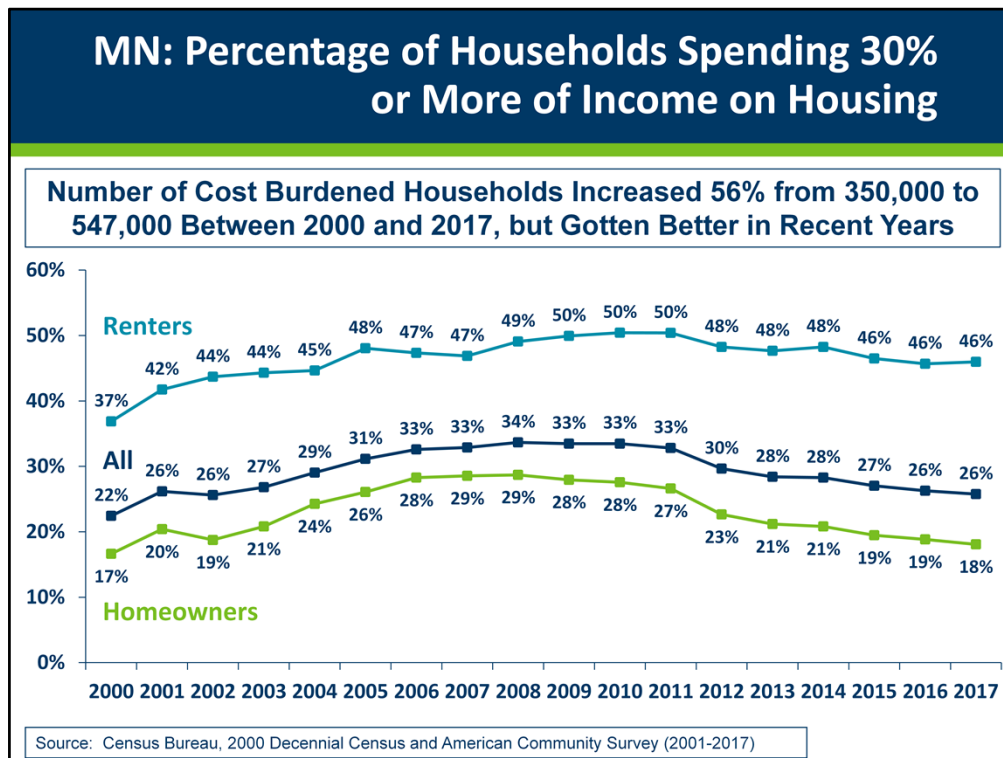
As a preview, this page and the following list the 10 key issues and trends. For readers who would like to jump to a specific issue or trend, the list includes the page number on which each sections starts.

Key Issues and Trends (continued)

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MINNESOTA HOUSING

Issue/Trend #1

Minnesota Needs More Affordable Housing with a Large Share of Households Cost Burdened by Their Housing

MN: Percentage of Households Spending 30% or More of Income on Housing

Number of Cost Burdened Households Increased 56% from 350,000 to 547,000 Between 2000 and 2017, but Gotten Better in Recent Years

Source: Census Bureau, 2000 Decennial Census and American Community Survey (2001-2017)
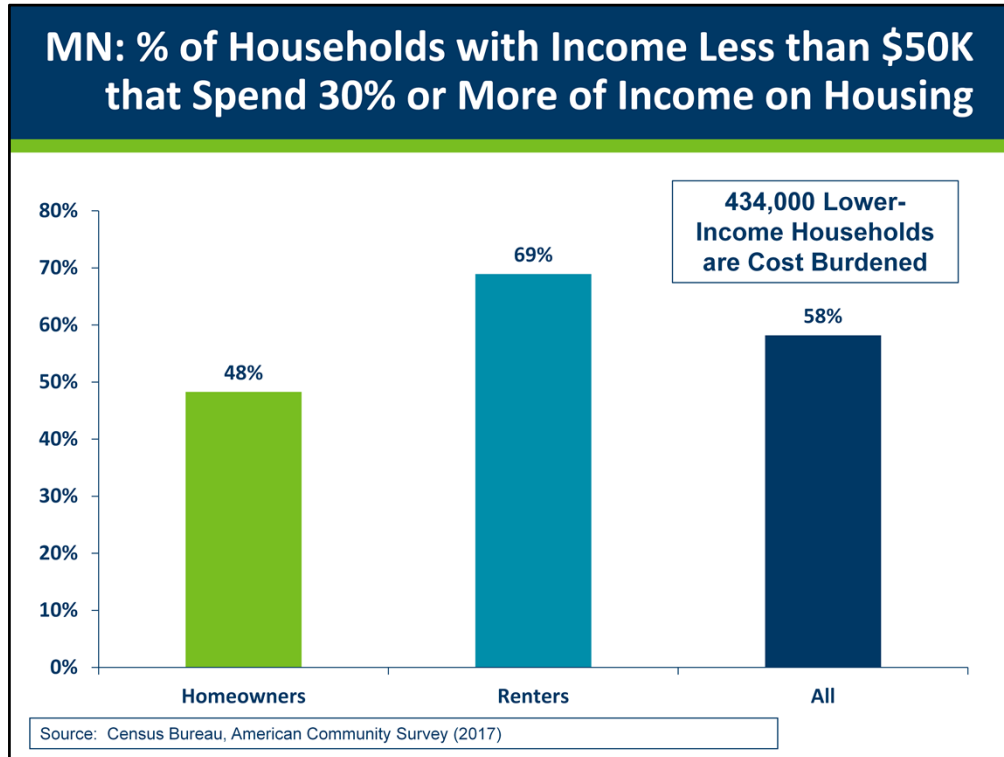
This graph shows the percentage of Minnesota households that were cost burdened over the last 17 years (spending more than 30% of their income on housing). Being cost burdened indicates that a household lacks affordable housing.

Key Points:

- The number of cost burdened households increased 56%, from 350,000 in 2000 to over 547,000 in 2017.
- The share of <u>all</u> households that are cost burdened (middle blue line) increased from 22% to 26%.
- The share of <u>renters</u> (top light blue line) increased from 37% to 46%.
- The share of <u>homeowners</u> (bottom green line) increased from 17% to 18%.
- After 2011, there was a noticeable improvement. As the following pages will show:
    - Incomes have risen from 2011 through 2017.
    - With respect to homeownership, lower home prices and interest rates after the housing collapse helped alleviate the situation significantly. New homeowners benefited from lower home prices, but existing homeowners also had the opportunity to refinance to lower interest rates and reduce their housing payments.

Implications:

- Since 2000, the need for more affordable housing has increased overall.
- The cost-burden situation is more severe for renters.
- As we assess the affordable housing landscape, there are a few key questions. Will the recent improvement continue? Will incomes for households in the bottom half of the income spectrum rise with the improving economy? Will incomes keep pace with rising housing costs, particularly for lower income households?

MN: % of Households with Income Less than $50K that Spend 30% or More of Income on Housing

434,000 Lower-Income Households are Cost Burdened

- Homeowners: 48%
- Renters: 69%
- All: 58%

Source: Census Bureau, American Community Survey (2017)

While the previous graph showed the percentage of all households that were cost burdened, this graph shows the percentage of lower-income households that were cost burdened in 2017. For this assessment, we define lower-income as households with an income less than $50,000, which is roughly 50% to 80% of the area median income (AMI) for a family of four, depending on the county.

Key Points:

- The need for more affordable housing is very large, especially for lower-income households.
- 434,000 lower-income households are cost burdened, which is 58% of that group.

Implications:

- In 2018, we assisted nearly 67,000 households. While this is a large and impressive number, it is not large enough to reach all the cost-burdened lower-income households.
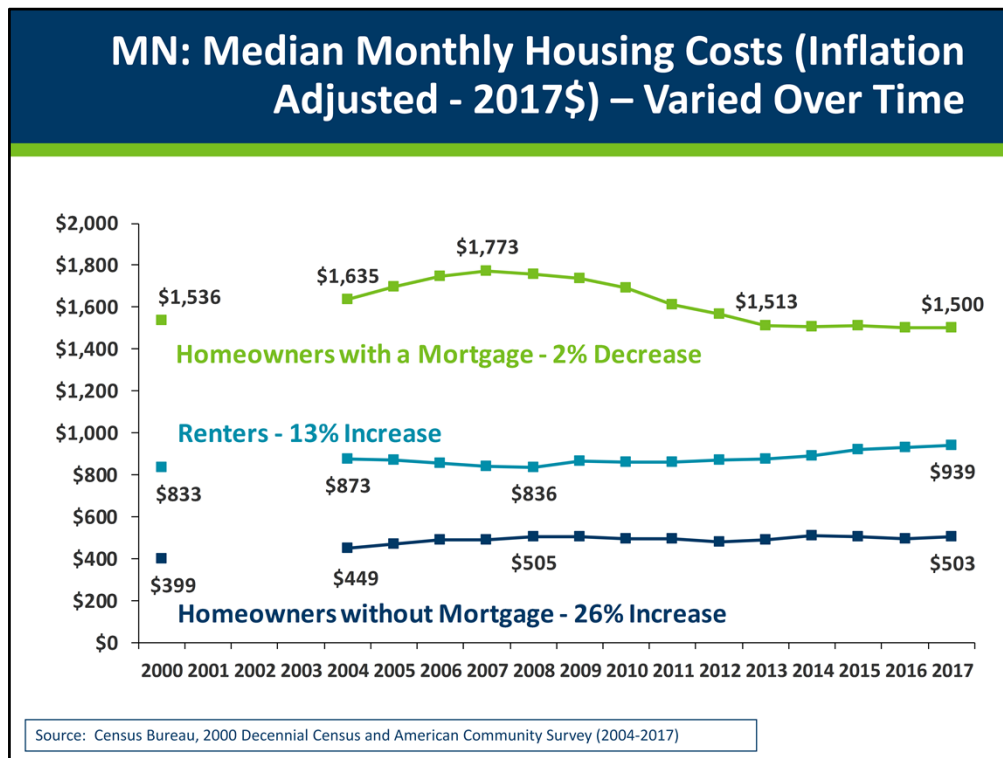
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Percentage of Lower-Income Households Cost Burdened, 2017
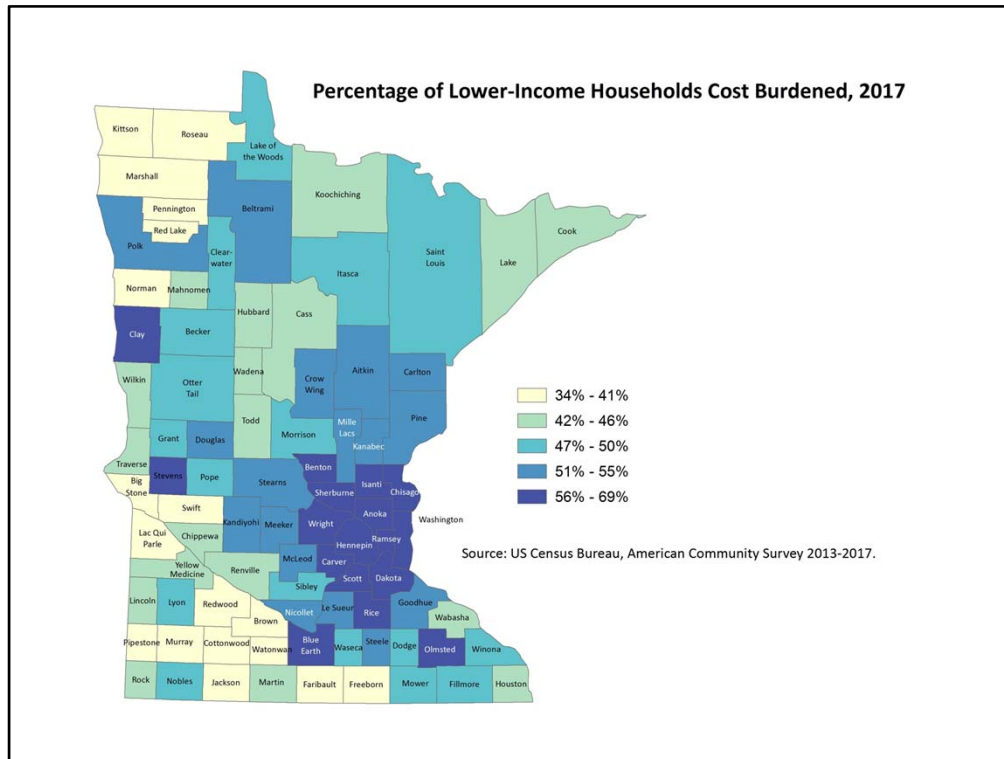
This map shows the percentage of lower-income households (annual income less than $50,000) that are cost burdened by county.

Key Points:

- The percentage varies from 34% to 69%.
- The highest percentages are generally in the metro area and surrounding communities, and the lowest percentages are in the western part of the state.
- Even the county with the lowest percentage has a 1/3rd of its lower-income households have unaffordable housing costs.

Implications:

- While the need for more affordable housing is substantial across the entire state, the level varies.

MN: Median Monthly Housing Costs (Inflation Adjusted - 2017$) – Varied Over Time

Source: Census Bureau, 2000 Decennial Census and American Community Survey (2004-2017)

Cost burden is a function of a household's housing costs in relation to its income. To understand trends in cost burden, we need to understand the trends in each component. This graph shows the median monthly housing costs for renters and homeowners, adjusted for inflation.
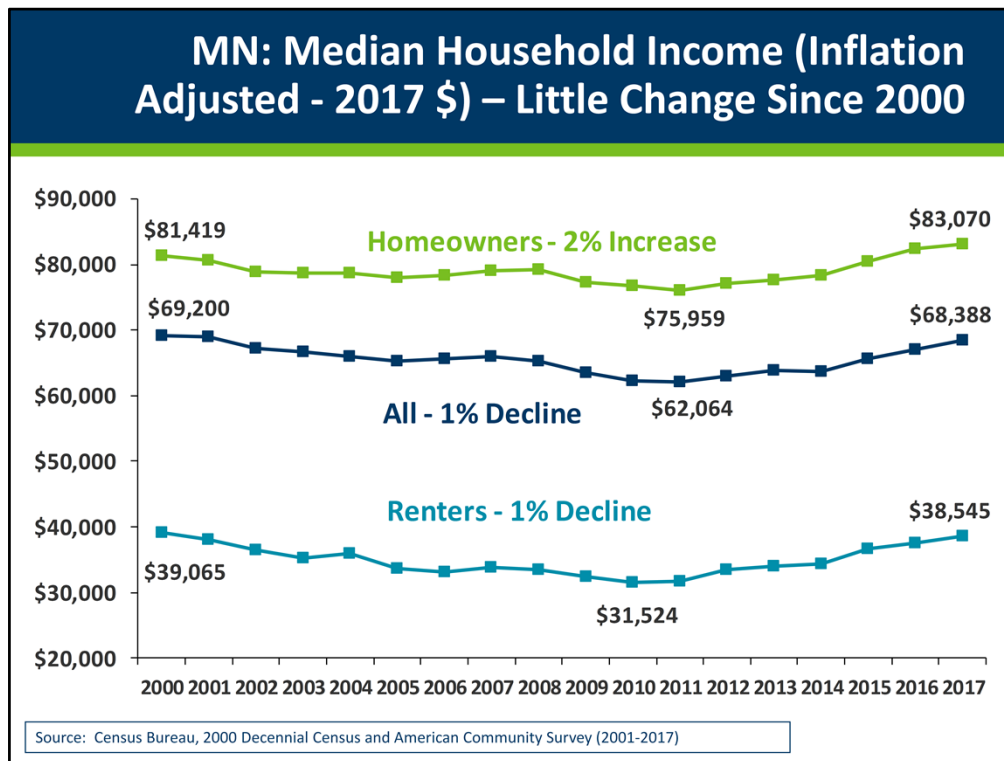
Key Points:

- Renters' costs increased by 13% since 2000, after controlling for inflation. This masks shorter-term trends during that period. Statewide, the median rent rose from $833 per month in 2000 to $873 in 2004, fell to $836 in 2008, and has since risen to $939. The consistent increase in rents since 2008 is an area for concern.

- Costs for homeowners with a mortgage decreased by 2%. Again, this masks an even more dramatic shift during that period. The median monthly cost increased from $1,536 in 2000 to $1,773 in 2007 and then fell to $1,500 by 2017. The overall trend is driven by home sale prices and interest rates, which we'll examine in detail later. As a preview, home sales prices fell during the housing crisis but are now increasing after bottoming out in 2011/12. Interest rates fell to historic lows after the Great Recession and are still relatively low.

- Costs for homeowners without a mortgage increased the most (26%). These higher costs reflect higher property taxes, insurance premiums, and utility costs. Many of these homeowners are seniors who have paid off their mortgages, which is an important when assessing senior housing needs.

Implications:

What can we do to reduce housing costs? Options include, but are not limited to:

- Offering mortgages at the lowest interest rates possible, with down-payment assistance.
- Increasing the supply of affordable rental and owner-occupied housing.

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MN: Median Household Income (Inflation Adjusted - 2017 $) – Little Change Since 2000

Homeowners - 2% Increase
$81,419
$83,070
$75,959

All - 1% Decline
$69,200
$62,064
$68,388

Renters - 1% Decline
$39,065
$38,545
$31,524

Source: Census Bureau, 2000 Decennial Census and American Community Survey (2001-2017)

Incomes that have really changed over the long term are a key contributor to the rising rate of cost-burdened households.
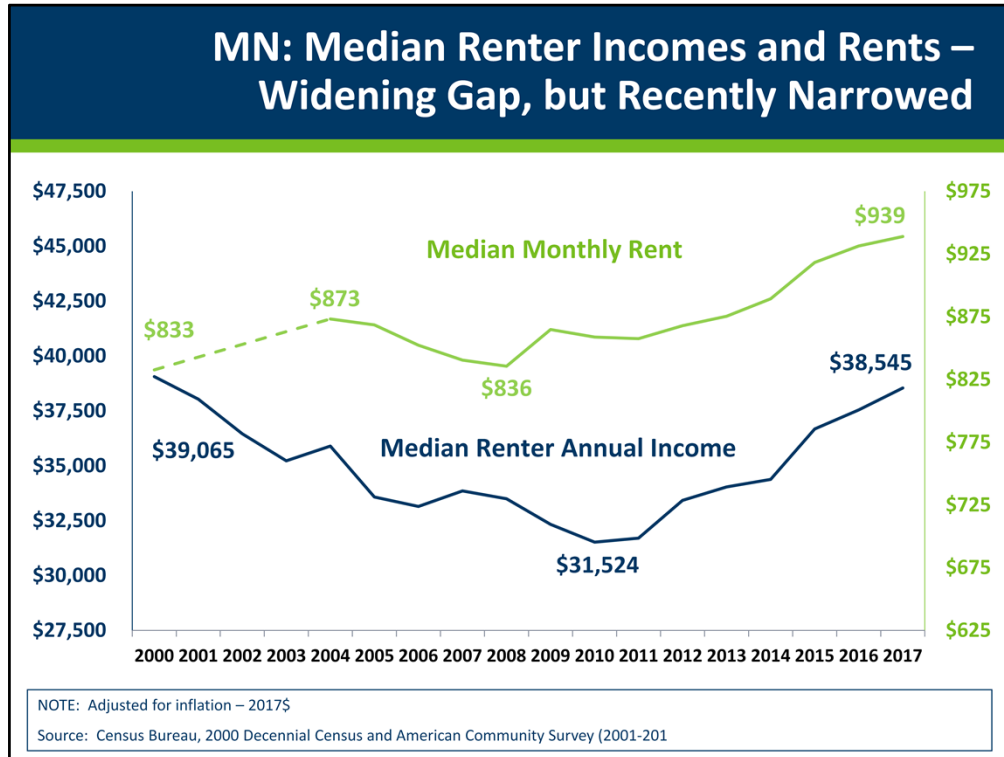
This graph shows the median household incomes over the past 17 years.

Key Points:
- Renter incomes fell 1% after controlling for inflation.
- Homeowner incomes have increased 2%.
- With the strengthening economy, incomes have increased since 2011, which is an encouraging sign.

Implications:
- While we are not an employment agency tasked with increasing household incomes, stagnant incomes play a key role in the environment in which we finance affordable housing, adding challenges to our task.
- Stable and affordable housing in location-efficient communities (providing access to transit, jobs, services, amenities, good schools, etc.) can contribute to the economic success of low- and moderate-income families.
- A key question is whether incomes will increase in the future and keep pace with housing costs. If there is a an increase, will it be wide spread and benefit the lowest-income and other disadvantaged households?
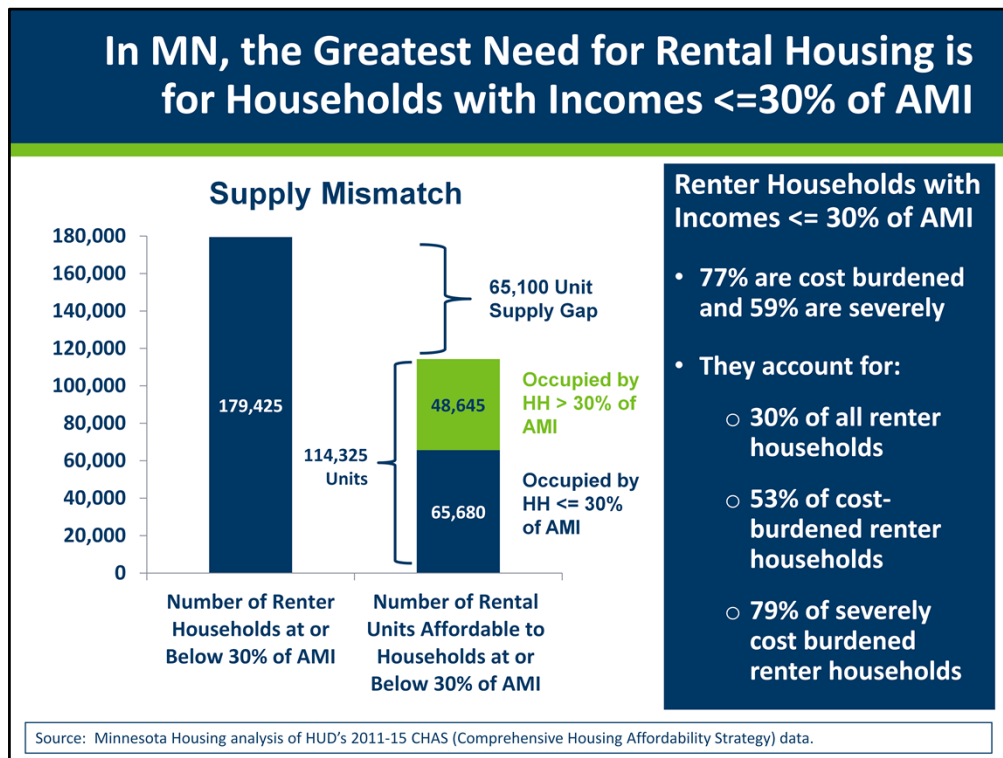
MN: Median Renter Incomes and Rents – Widening Gap, but Recently Narrowed

Median Monthly Rent

$833

$873

$836

$939

$39,065

Median Renter Annual Income

$31,524

$38,545

NOTE: Adjusted for inflation – 2017$

Source: Census Bureau, 2000 Decennial Census and American Community Survey (2001-201

This graph brings the cost and income trends together in one picture for renters.

Key Points:

- From 2000 to 2010, rental housing became less affordable relative to income. Since then, increases in the median income have more than kept pace with increases in the median rent.
- Overall, there was a 13% increase in rents and a 1% decrease in incomes (adjusted for inflation).

Implications:

- Housing affordability and stability are determined by many market, economic, and societal factors with complex interactions. The following charts will document some of them.

In MN, the Greatest Need for Rental Housing is for Households with Incomes <=30% of AMI

Supply Mismatch

65,100 Unit Supply Gap

179,425

114,325 Units

Occupied by HH > 30% of AMI — 48,645

Occupied by HH <= 30% of AMI — 65,680

Number of Renter Households at or Below 30% of AMI

Number of Rental Units Affordable to Households at or Below 30% of AMI

Renter Households with Incomes <= 30% of AMI

- **77% are cost burdened and 59% are severely**

- **They account for:**
  - **30% of all renter households**
  - **53% of cost-burdened renter households**
  - **79% of severely cost burdened renter households**

Source: Minnesota Housing analysis of HUD's 2011-15 CHAS (Comprehensive Housing Affordability Strategy) data.

This chart shows the shortage of rental housing that is affordable to households with an income that is 30% of the area median income (AMI) or less. These households have the greatest need for affordable rental housing. For context, 30% of AMI for a family of three in Minnesota ranges from $18,800 to $25,500, depending on the county.
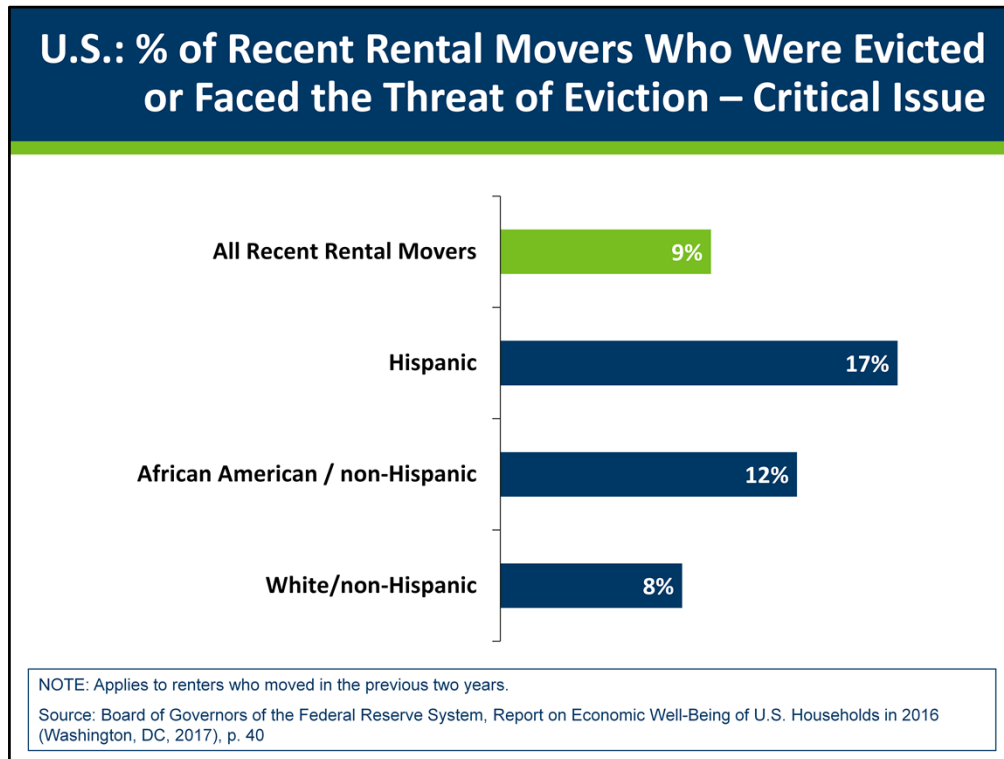
Key Points:

- While there are nearly 180,000 renter households in Minnesota with incomes at or below 30% of AMI, the state only has 114,000 rental units that are affordable at that income level.

- Of those 114,000 units, only 66,000 are occupied by households with income at or below 30% of AMI; the rest are occupied by higher income households.

- Even some of the 66,000 households with incomes at or below 30% of AMI who have rents that are affordable at or below 30% of AMI are cost burdened. This can occur if a household has an income at 15% of AMI, but its rent is affordable at 25% of AMI.

- Overall, 77% of renter households with incomes at or below 30% of AMI are cost burdened, and 59% are severely cost burdened (with more than 50% of their going to housing).

Implications:

- Because producing new rental housing is expensive, providing additional affordable housing to extremely-low-income households will require subsidies and assistance. We can meet the need by building more affordable rental housing and providing additional rent assistance to make existing housing affordable.

Issue/Trend #2

Many Minnesotans Struggle with Housing Instability, Most Notably People Experiencing Homelessness

U.S.: % of Recent Rental Movers Who Were Evicted or Faced the Threat of Eviction – Critical Issue

All Recent Rental Movers	9%
Hispanic	17%
African American / non-Hispanic	12%
White/non-Hispanic	8%

NOTE: Applies to renters who moved in the previous two years.

Source: Board of Governors of the Federal Reserve System, Report on Economic Well-Being of U.S. Households in 2016 (Washington, DC, 2017), p. 40

Besides high housing costs and limited incomes, there are many other causes of housing instability. People with criminal records, poor credit histories, or evictions struggle to find stable housing. This graph shows the share of recent rental movers (moved in the previous two years) who were evicted or faced the threat of eviction.

Key Points:

- Almost 1 in 10 recent rental movers (9%) faced eviction or threat of an eviction over a two-year period.
- Among all renters, about 3% were evicted or moved because of the threat of an eviction over a two-year period. (Not shown in the graph, but from the same data.)
- People of color are much more likely to face eviction.

Implications:

- Being evicted is not only extremely disruptive but also makes it far more difficult to access housing in the future. Landlords use rental histories to screen potential tenants.

Notes:

- This data is from a Federal Reserve Bank report for 2016. In its updated report for 2017, 9% of renters who moved in the last two years did so because of an eviction or threat of eviction, just like 2016, but the most recent report did not provide a racial and ethnic split.
- Compared to people in other states, Minnesotans have a relatively low eviction rate. According to Princeton University's Evictions Lab, Minnesota's eviction filing rate was 2.32% in 2016, compared with 6.12% nationally. Note, this data is from a different source and counting something slightly different than the data in the graph. The data from the Evictions Lab applies to eviction filings in a single year, while the Federal Reserve survey data in the graph applies to people who moved in the last two years because of an eviction or the threat an eviction.

MN: Number of Home Foreclosures (Sheriff's Sales) – Significant Declines

Source: Minnesota Homeownership Center, *2017 Annual Foreclosures in Minnesota* (May, 2018), p. 4.
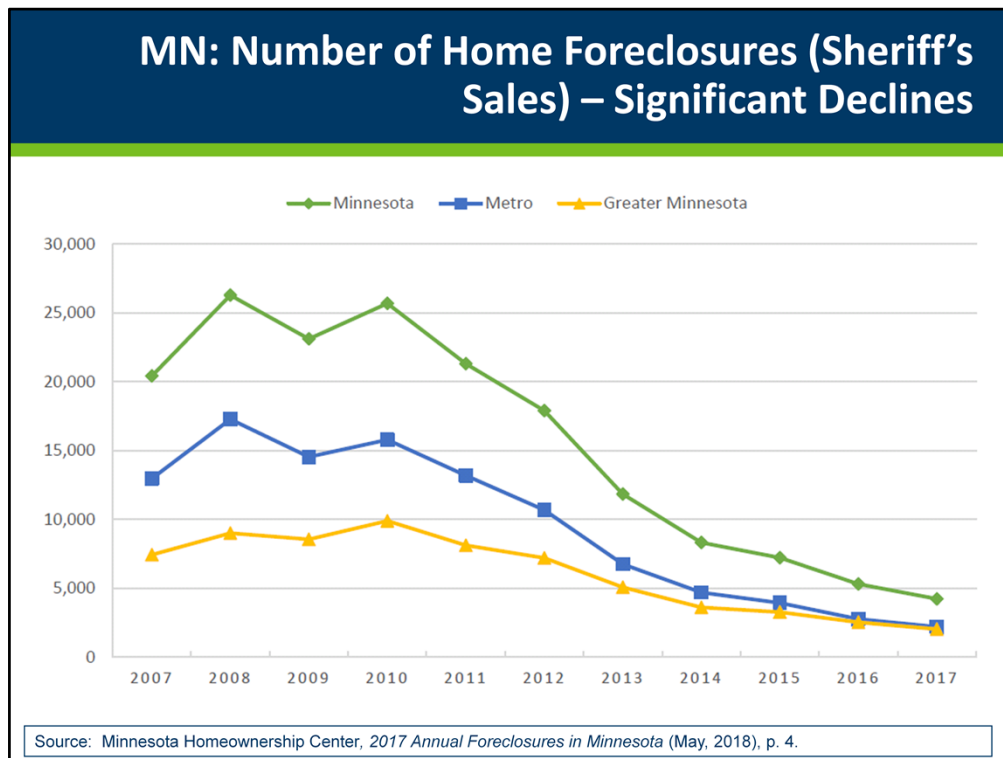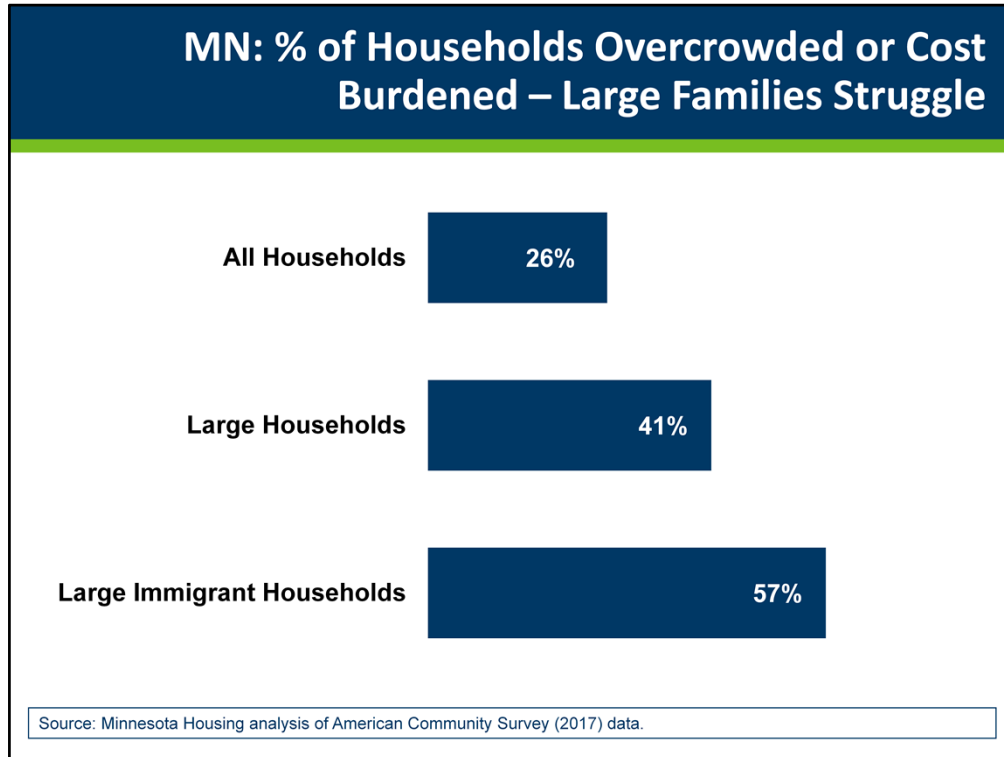
Homeowners can also face housing stability, and foreclosures are a primary cause. This graph shows the number of foreclosures in Minnesota since 2007.

Key Points:

- With the housing and financial crisis that came into full effect between 2008 and 2010, foreclosures were widespread a decade ago, with about 25,000 annual foreclosures.
- By 2017, the number had dropped to 4,231.
- With about 750,000 home mortgage in Minnesota, about 0.6% of foreclosed in 2017.

Implications:

- Even though we have moved past the crisis, foreclosures are still very disruptive for those families experiencing them.
- Minnesota Housing funds foreclosure counseling through the Minnesota Homeownership Center.

MN: % of Households Overcrowded or Cost Burdened – Large Families Struggle

All Households	26%
Large Households	41%
Large Immigrant Households	57%

Source: Minnesota Housing analysis of American Community Survey (2017) data.

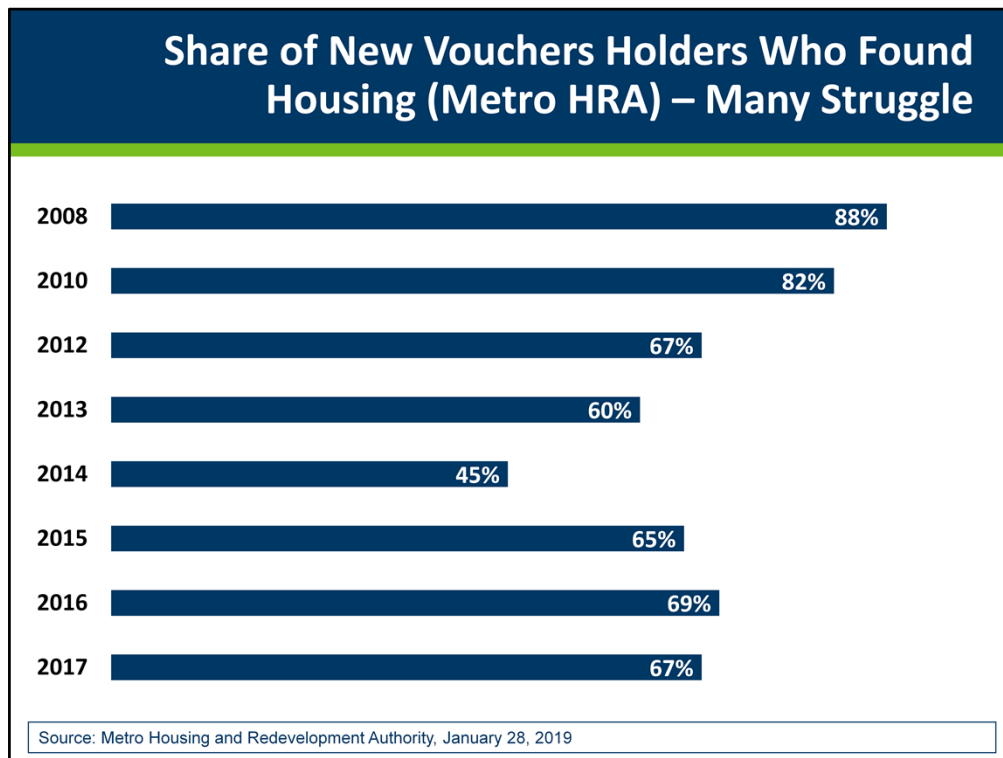Large households and immigrants also struggle with housing instability.

In this graph, large households have 6 or more people. Households are classified as immigrant if the head of household or spouse were born outside the United States.

Key Points:

- While 26 percent of all households are cost burdened and/or live in overcrowded housing, 41% of all large households and 57% of large immigrant households are.
- NOTE: Of all the households that are cost burdened or overcrowded, nearly all are cost burdened. Only a very small share are overcrowded but not cost burdened.

Implications:

- Finding affordable housing with at least three or four bedrooms is very challenging.

Share of New Vouchers Holders Who Found Housing (Metro HRA) – Many Struggle

Year	Percent
2008	88%
2010	82%
2012	67%
2013	60%
2014	45%
2015	65%
2016	69%
2017	67%

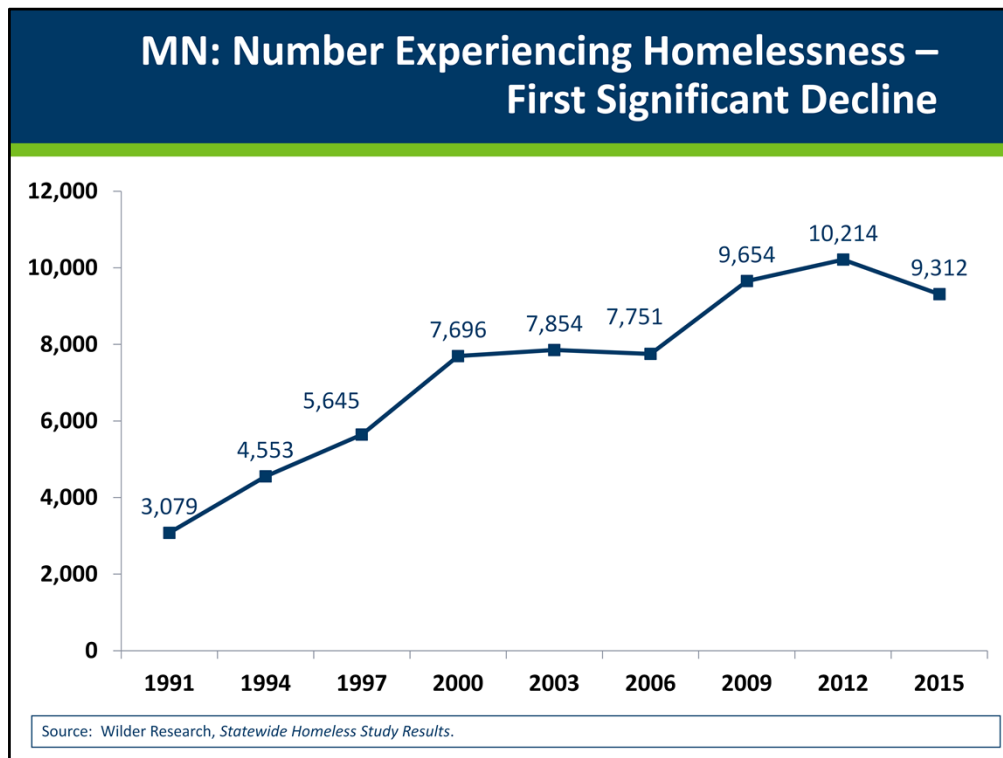Source: Metro Housing and Redevelopment Authority, January 28, 2019

On paper, rental vouchers can be an effective way to support housing affordability and stability. They allow the holders to pay no more than 30 percent of their income for rent, with the sponsor of the voucher (typically HUD or the state of Minnesota) paying the rest of the market-rate rent. However, in the current housing market, it can be very challenging to use the vouchers. With the low vacancy rates, voucher holders have to compete with all the other renters looking for the few available units.

Key Points:

- In 2017, only 67 percent of new holders of a Housing Choice Voucher from Metro HRA were able to successfully find housing with the voucher. One-third were unsuccessful.

- The success rate has improved some since 2014, when Metro HRA updated the waiting list for receiving a voucher. The previous list was eight years old. Metro HRA has also increased the search time from 120 to 180 days, allowing families additional time to find a home to use the voucher.

Implications:

- This data shows that even households with significant support struggle to achieve housing stability in the current housing market.

**MN: Number Experiencing Homelessness –
First Significant Decline**

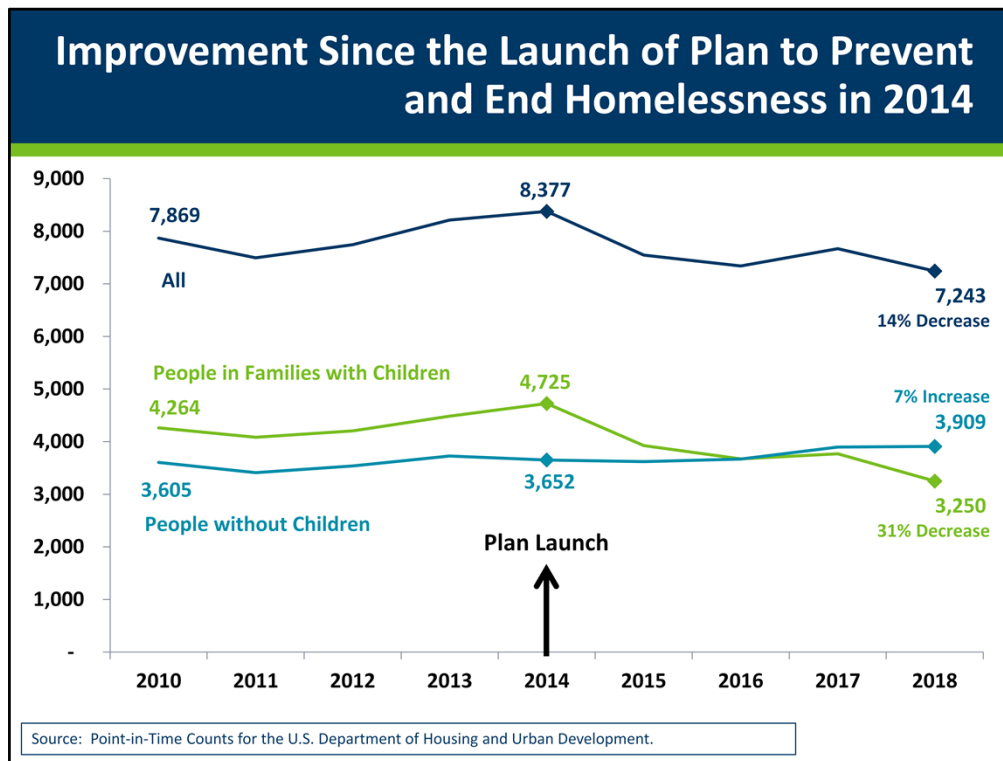Source: Wilder Research, *Statewide Homeless Study Results*.

Homelessness is the most extreme form of housing instability and a chronic problem in Minnesota. This graph presents data from Wilder Research's triennial survey and shows the number of people experiencing homelessness on one night in October. Results from the 2018 survey will be available this spring.

Key Points:

- After increasing for two decades, the number of people experiencing homelessness had its first significant decline in 2015.
- After leveling off in 2003 and 2006, the state experienced a large increase with the Great Recession.

Implications:

- Homelessness is a large problem that requires a coordinated and sophisticated strategy to address. To that end, Minnesota has an Interagency Council on Homelessness that brings together the resources of 11 state agencies and the Metropolitan Council, with the goal of aligning, coordinating, and leveraging housing, social services, and other supports. The Interagency Council launched its initial Plan to Prevent and End Homelessness in December 2013, with two updates since then. The most recent update expanded the statewide effort to be multisector and include philanthropy and local communities, in addition to the state agencies.

Improvement Since the Launch of Plan to Prevent and End Homelessness in 2014

Source: Point-in-Time Counts for the U.S. Department of Housing and Urban Development.

The following three graphs shows trends in the number of people experiencing homelessness by sub-populations, before and after launching the Plan to Prevent and End Homelessness. These numbers come from HUD's Point-in-Time count, which is a different source and provides slightly lower numbers than the Wilder Research estimates in the previous graph. These numbers have the advantage of being updated annually.

Key Points:

- All: The overall number of people experiencing homelessness has declined by 14% since the plan was launched.

- Families: Because people in families with children originally accounted for over half the homeless population, this trend line has driven the overall trend. Since the launch of the Plan, family homelessness has dropped by 31%.

- Adults without children: The decline in family homelessness is partially offset by an increase in the number of adults without children experiencing homelessness, which has increased by 7% since 2014.

Improvement Since the Launch of Plan to Prevent and End Homelessness in 2014 (continued)

Source: Point-in-Time Counts for the U.S. Department of Housing and Urban Development.
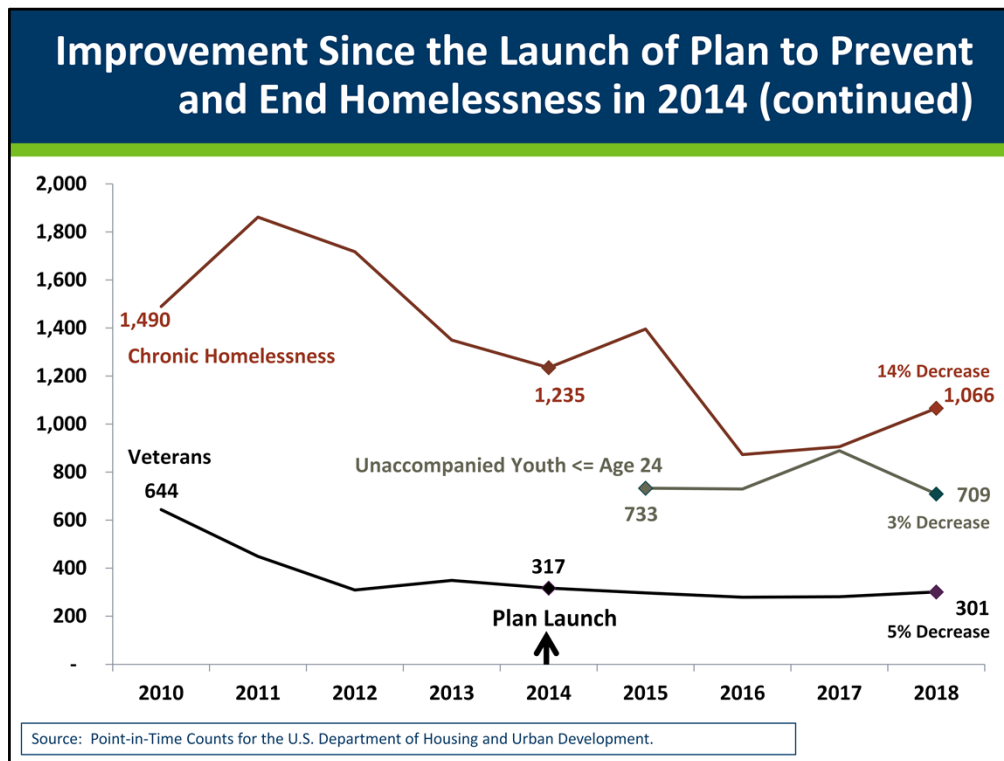
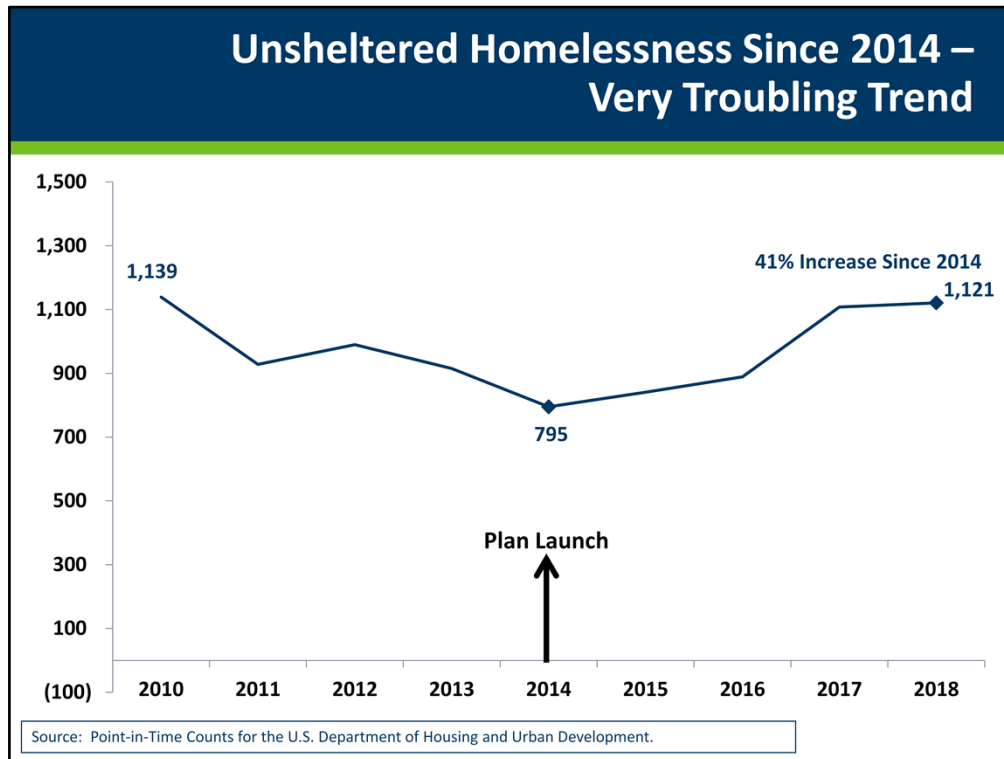This graph is a continuation of the previous one, and shows trends for additional groups.

The subpopulations shown in these graphs are not mutually exclusive. The same person could show up in the trend line for the overall population, people without children, chronic, veteran, and unsheltered.

Key Points:

- Chronic: The number of people experiencing chronic homelessness has fluctuated over the last few years, but is on a downward trend overall. It has increased each of the last two years.
- Youth: The number has not decreased significantly. This population can be particularly challenging to serve.
- Veterans: The number of veterans experiencing homeless is on a clear downward trajectory. While it has only declined by 5% since 2014, it has declined by 53% since 2010.

Implications:

- The state Plan to Prevent and End Homelessness addresses all types of homelessness, with the goal of bending all the trend lines downward significantly, so that homelessness is rare, brief, and one time. While we are making progress, a lot more work is needed.

This graph is a continuation of the previous two, but just focuses on the trend for people experiencing unsheltered homelessness.
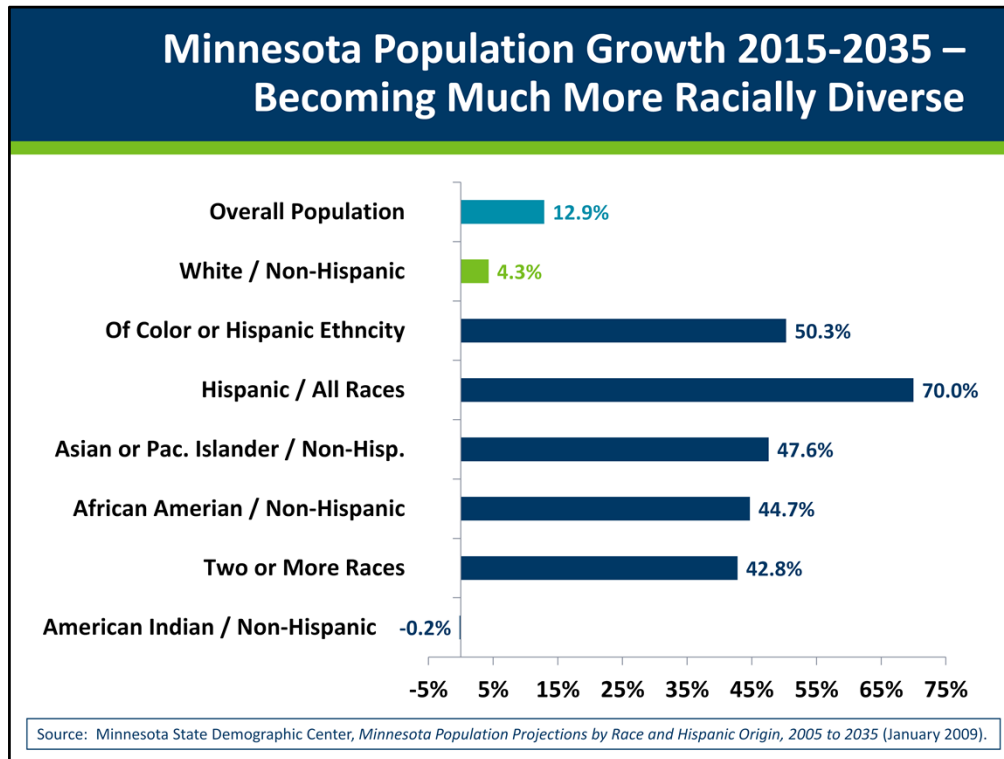
Key Points:

- Unsheltered homelessness has increased 41% since 2014.
- In the metro area, it has increased by 92% since 2015.

  o People of color are overrepresented in the unsheltered homelessness population in the metro area by a factor of 2.7 compared with their representation in the general population . This ratio is comparable to overrepresentation in the overall homelessness population, meaning that the disproportionality in unsheltered homelessness is similar to the disproportionality in homelessness overall, across all forms of homelessness.

  o However, African Americans / Blacks are overrepresented in the unsheltered population by 5.3 times what we would expect from the general population

  o American Indians in the Twin Cities metro area are 27 times more likely to be unsheltered than we would expect from their representation in the general population. Data from the U.S. Census Bureau indicates there are 14,089 American Indians in the region, representing less than 0.5% of the region's population. The 2017 HUD Point-in-Time count indicates there were 80 unsheltered American Indians in the region, representing 13% of the unsheltered population.

Implications:

- In response to the troubling trend in unsheltered homelessness, we are working with community experts and partners to create a system-wide response.

Minnesota Housing

Issue/Trend #3
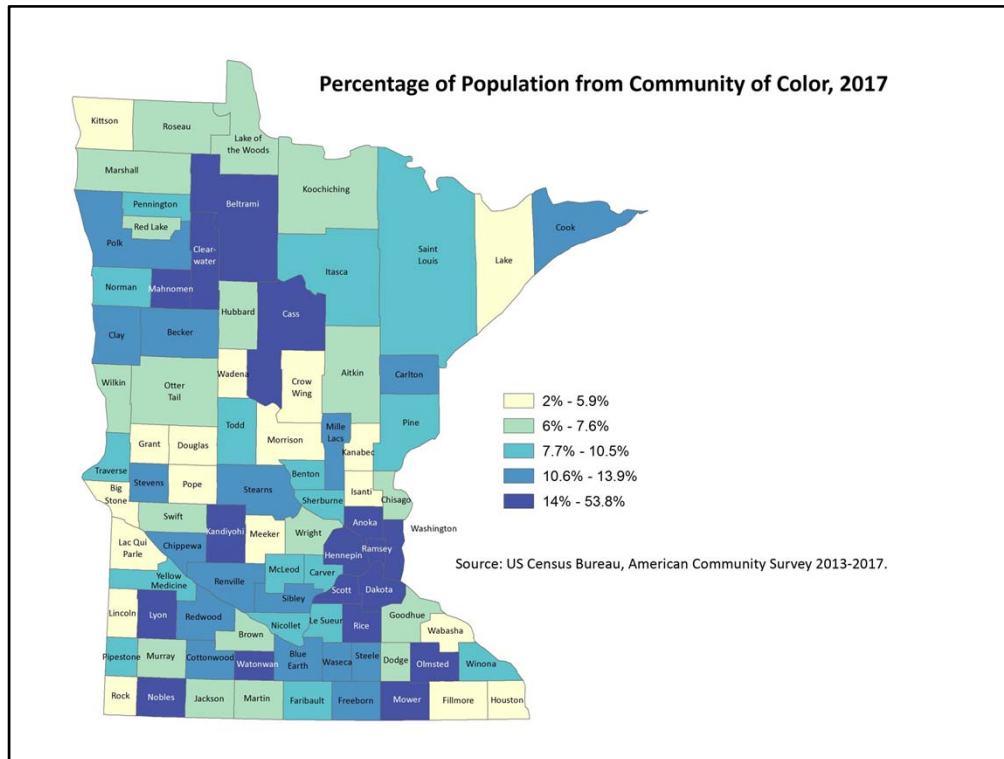
Minnesota is Becoming More Diverse and We Have Unacceptable Disparities

Minnesota Population Growth 2015-2035 – Becoming Much More Racially Diverse

Category	Growth
Overall Population	12.9%
White / Non-Hispanic	4.3%
Of Color or Hispanic Ethncity	50.3%
Hispanic / All Races	70.0%
Asian or Pac. Islander / Non-Hisp.	47.6%
African Amerian / Non-Hispanic	44.7%
Two or More Races	42.8%
American Indian / Non-Hispanic	-0.2%

Source: Minnesota State Demographic Center, *Minnesota Population Projections by Race and Hispanic Origin, 2005 to 2035* (January 2009).

Minnesota's population is currently about 81% white/non-Hispanic, but the population is becoming much more diverse.

Key Points:

- Minnesota's overall population is forecasted to grow by 12.9% by the year 2035.
- While the white/non-Hispanic population will grow by just 4.3%, the population of color is expected to grow by 50.3%.

Implications:

- Minnesota is becoming much more racially and ethnically diverse.

Percentage of Population from Community of Color, 2017

Source: US Census Bureau, American Community Survey 2013-2017.

Legend:
- 2% - 5.9%
- 6% - 7.6%
- 7.7% - 10.5%
- 10.6% - 13.9%
- 14% - 53.8%

As shown in the map, people of color are not evenly distributed across the state.
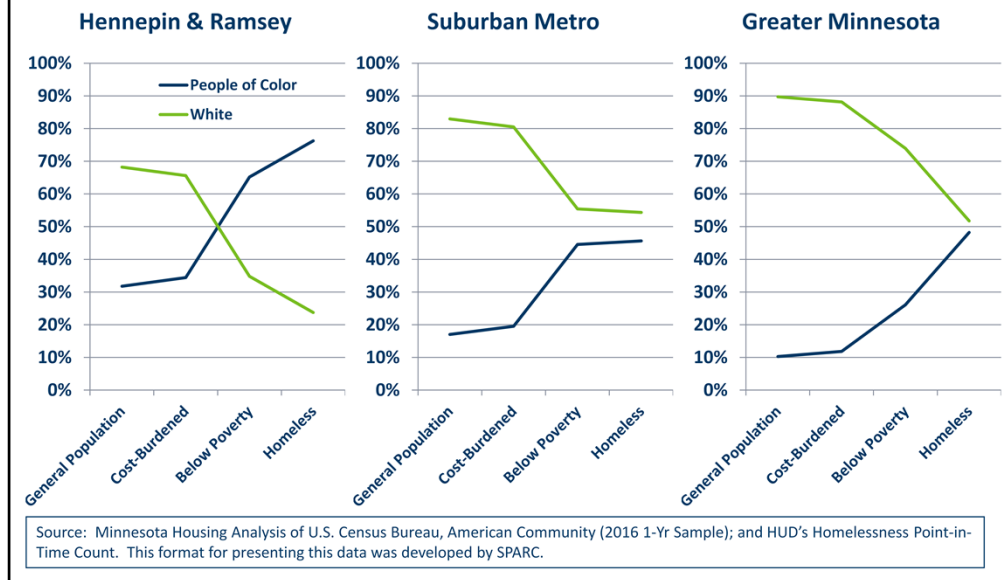
Key Points:

- The percentage in each county varies from 2% to 54% of the population.

Implications:

- The housing needs of people of color play a critical role in some counties and will play an increasing role across the state.

These graphs show Minnesota's disparities in housing and economic instability.

Key Points:

- Regardless of the area of the state, as the level of housing and economic instability increases, people of color account for a greater and greater share of the population.
- For example, in Hennepin and Ramsey counties, people of color account for:
  - 32% of the general population
  - 34% of the cost-burdened households (spending more than 30% of the income on housing)
  - 65% of the population in poverty
  - 76% of the people experiencing homeless on a given night
- In Greater Minnesota (not explicitly shown in the chart, but calculated from the same data) :
  - 43 people of color are homeless per 10,000 residents of color
  - 5 white people are homeless per 10,000 white residents
  - People of color are 8 times more likely to homeless than white residents

Implications

- In an equitable society, these disparities are unacceptable.

MN: Homeownership Rates by Race and Ethnicity – One of the Largest Disparities in the Country

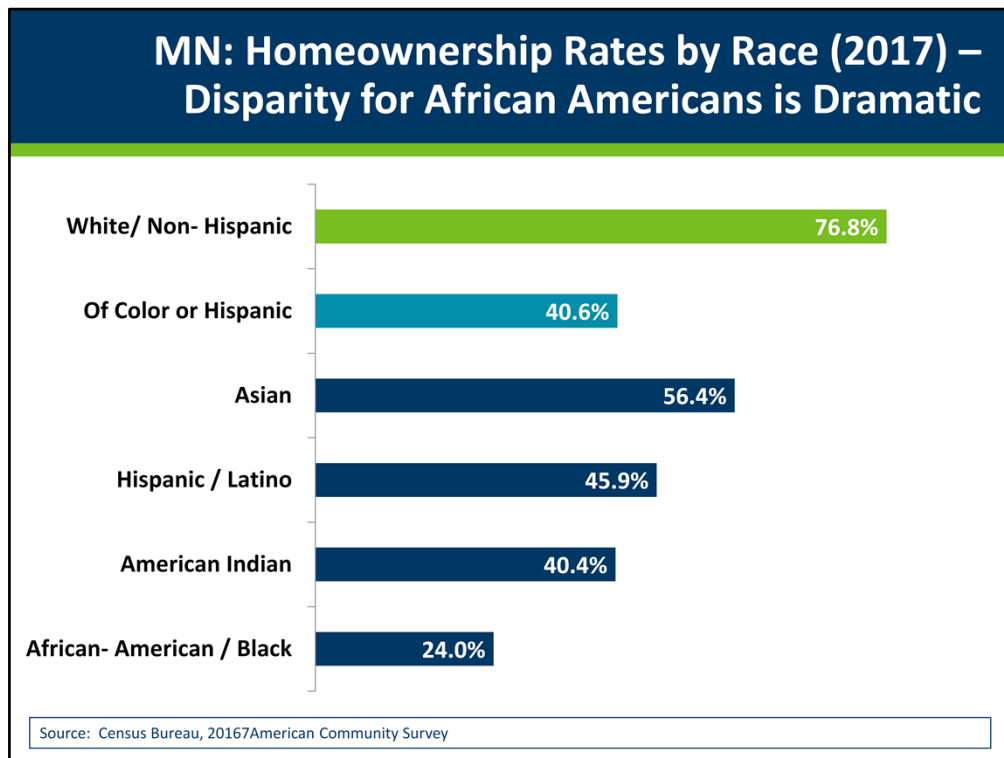Source: Census Bureau, 2000 Census and American Community Survey (2001-2017)
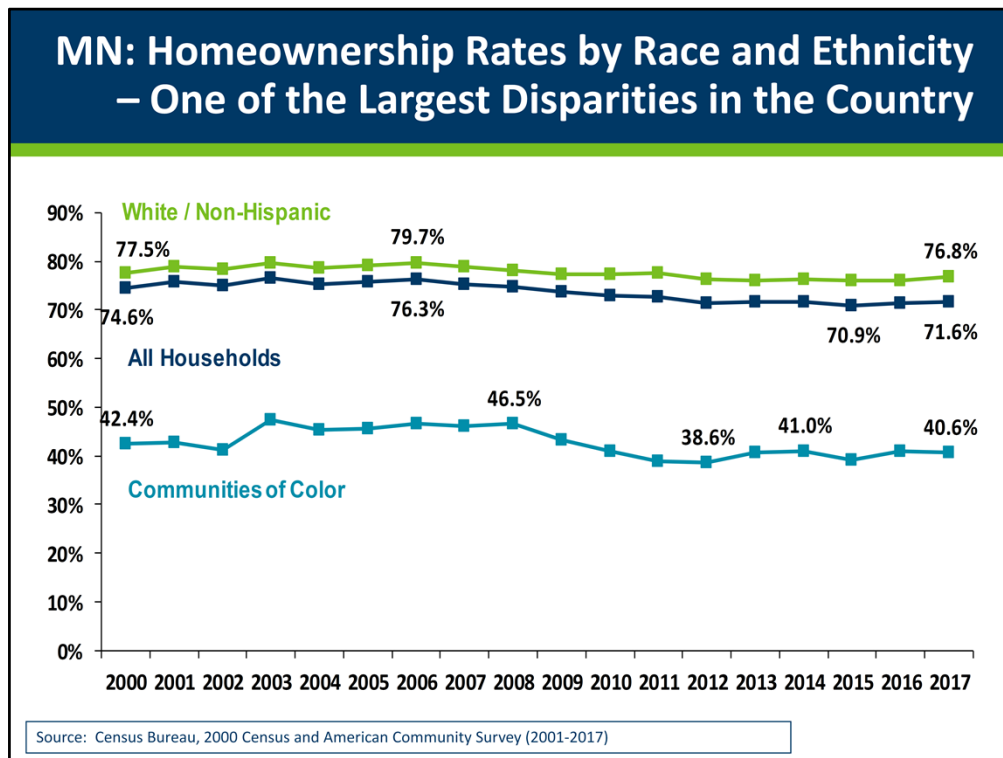
This graph compares the homeownership rates of households of color with white/non-Hispanic households.

Key Points:

- Minnesota's 36.2% point disparity in homeownership rates between white/non-Hispanic households and households of color is the 3rd largest in the country.
- The disparity has not changed much in the last 18 years.

Implications:

- Successful homeownership provides one of the highest levels of housing stability. If we are to achieve housing stability for all Minnesotans, tackling the homeownership disparity needs to be a priority.
- In 2018, 34% of Minnesota Housing's mortgages for first-time homebuyers went to households of color, while in 2017, only 15% of all home-purchase mortgages in the overall mortgage market in Minnesota went to households of color.
- We estimate that 34% of renter households who are potentially income-ready to buy a home and are between the ages of 25 and 44 (the primary first-time homebuyer ages) are households of color.
- Minnesota Housing is a relatively small player in the overall mortgage market, only accounting for about 5% of the mortgages in Minnesota for home purchases.
- How do we get the broader industry to increase its lending to households of color or increase Minnesota Housing's share of the market?
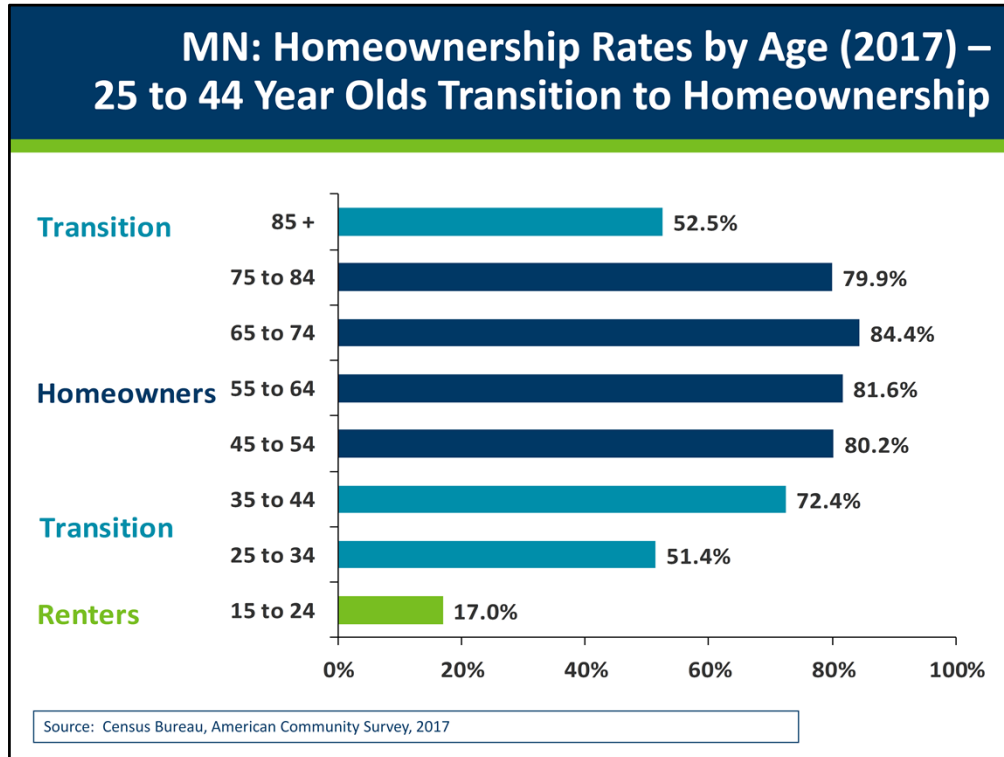
MN: Homeownership Rates by Race (2017) – Disparity for African Americans is Dramatic

Race	Rate
White/ Non- Hispanic	76.8%
Of Color or Hispanic	40.6%
Asian	56.4%
Hispanic / Latino	45.9%
American Indian	40.4%
African- American / Black	24.0%

Source: Census Bureau, 20167American Community Survey

There are also large homeownership disparities within communities of color in Minnesota.

Key Points:

- While the Asian community has a homeownership rate of 56.4%, the African-American/Black community has a 24.0% rate (keeping in mind that the homeownership rates among Asian Americans is not consistent, for example, varying between people of Indian and of Hmong descent).

Implications:

- Programs that address the homeownership disparity need to recognize racial and ethnic differences within communities of color.
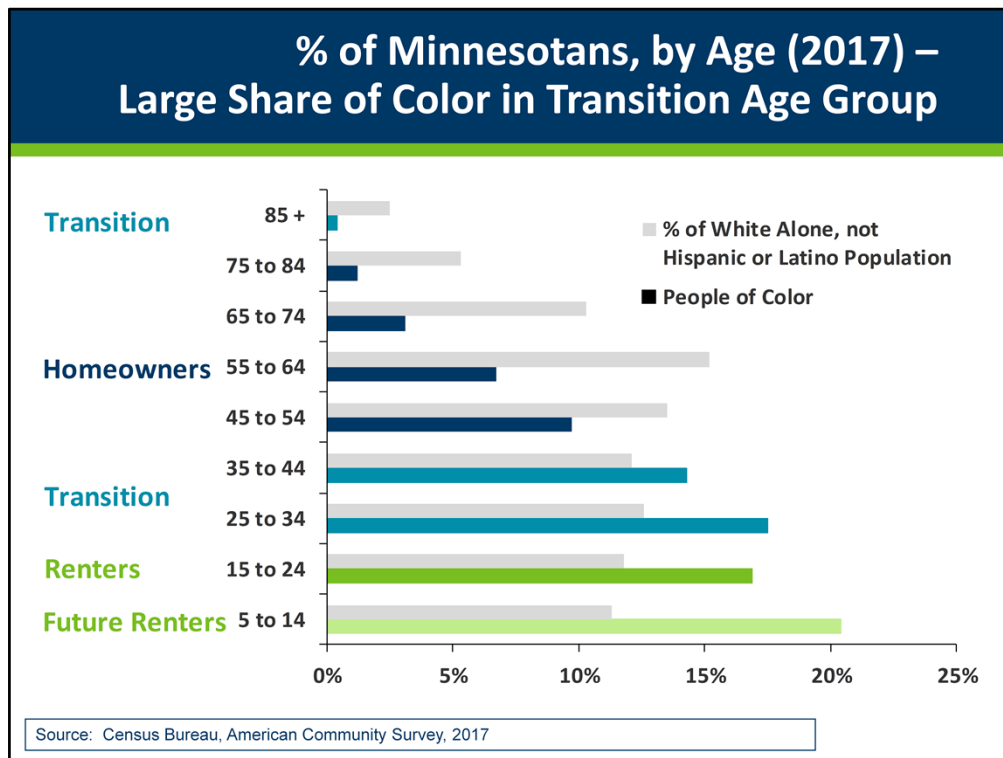
**MN: Homeownership Rates by Age (2017) –
25 to 44 Year Olds Transition to Homeownership**

Transition	85 +	52.5%
	75 to 84	79.9%
	65 to 74	84.4%
Homeowners	55 to 64	81.6%
	45 to 54	80.2%
Transition	35 to 44	72.4%
	25 to 34	51.4%
Renters	15 to 24	17.0%

Source: Census Bureau, American Community Survey, 2017

Part of the homeownership disparity can be explained by the age of the population. A person's stage in life (often reflected by his or her age) plays key role in homeownership.

This graph shows the homeownership rate by age.

Key Points:

- Young single people who are in the less-stable and early stages of their careers and lives typically rent for affordability and flexibility reasons. (See ages 15-24 in this graph.)
- As families form and careers are established, households look for stability and transition to homeownership. (See ages 25 to 44 in this graph. The transition primarily occurs for 25 to 34 year olds, when the homeownership rate jumps from 17.0% to 51.4%. A smaller transition occurs for 35 to 44 year olds, with the rate increasing to 72.4%.
- From ages 45 to 84, the vast majority of Minnesota households are in the homeownership stage of life.
- After households go through the initial phase of retirement, age, and start to face the struggles of independent living, they start to transition back to renting.

% of Minnesotans, by Age (2017) – Large Share of Color in Transition Age Group

Source: Census Bureau, American Community Survey, 2017

This graph shows the share of Minnesotans by age and phase of life as it relates to housing.

Key Points:

- A large share of people of color is in the transition phase (becoming homeowners).
- The largest share of the white/non-Hispanic population is in the homeowner phase of life.

Implications:

- The age distribution partially explains the homeownership disparity, with a larger share of the white/non-Hispanic population in the homeowner phase than people of color.
- With such a large share of the population of color in the transition (first-time homebuyer) phase, mortgage lending needs to focus on this population for both equity and business reason.

To better understand the first-time homebuyer market, we assessed renter households who are potentially income-ready to buy a home and between the ages of 25 and 44. We chose $30,000 in Greater Minnesota and $35,000 in the Twin Cities metro area as the minimum annual income to be potentially income-ready to buy. Those incomes are quite low, but we have seen successful ownership with the right supports and mortgage products, including our Homeownership Capacity program and lending through Habitat for Humanity.

Key Points:

- Minnesota has 188,000 renter households between the ages of 25 and 44 who are potentially income-ready to buy a home.
- 64,000 (34%) of those households are of color.
- This identification of households who are potentially income-ready to buy a home does not include other factors that determine if a household qualifies for a mortgage, including credit scores and other debt.

Implications:

- As a state, we should strive for 34% of all first-time homebuyer mortgages (not just Minnesota Housing's mortgages) going to households of color.

Race and Ethnicity of the 64,000 Households of Color Who Are Potential Homebuyers

	7-County Metro	Greater MN	Statewide
African American / Black	**38%**	**24%**	**35%**
American Indian	**2%**	**12%**	**4%**
Asian	**29%**	**18%**	**27%**
Hispanic or Latino	**21%**	**32%**	**23%**
Other Race	**2%**	**4%**	**2%**
Two or More Races	**8%**	**10%**	**9%**
Total	**100%**	**100%**	**100%**

Source: Minnesota Housing Analysis of Census Bureau, *American Community Survey*, 2016 (IPUMS microdata, 5-year sample)

This table shows the racial and ethnic break out of the 64,000 households are color who are between the ages of 24 and 44 and potentially income-ready to buy a home.
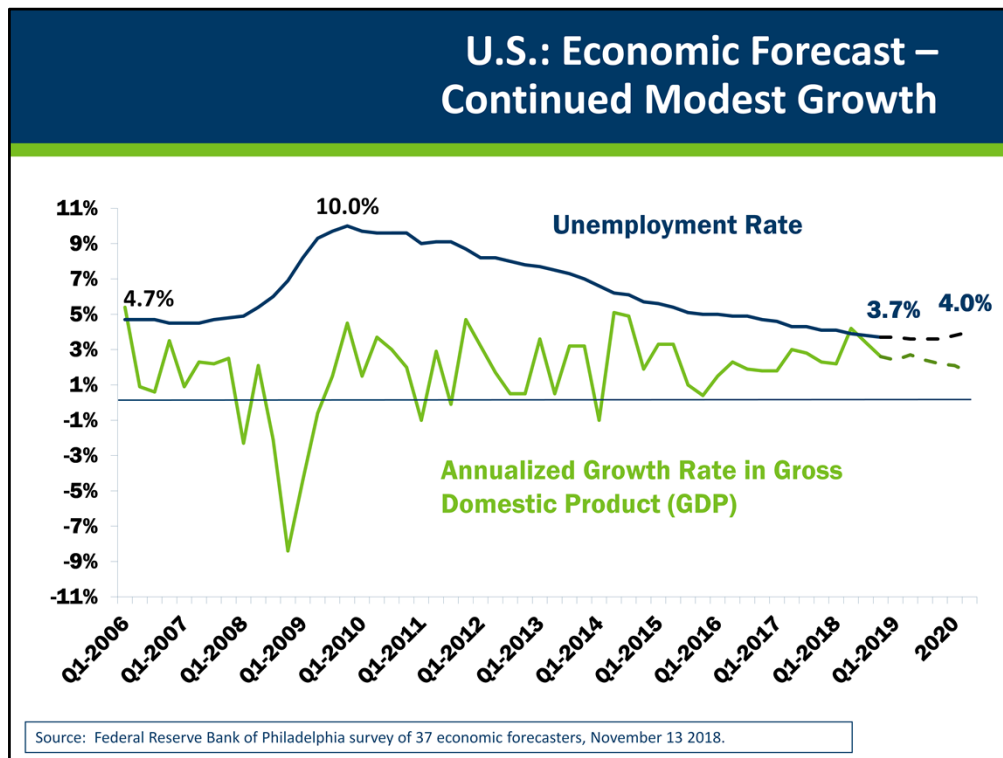
Key Points:

- African American/black households account for the highest percentage.

Implications:

- Given the low homeownership rate for African American/black households, it is not surprising that this population makes up the largest share.
- The Homeownership Opportunity Alliance, an industry-wide collaboration to increase homeownership for households of color, has focused on African American/black households.

Issue/Trend #4

The Economy Is Expected to Continue Growing Modestly, Hopefully Supporting Growth in Household Incomes

U.S.: Economic Forecast – Continued Modest Growth

Source: Federal Reserve Bank of Philadelphia survey of 37 economic forecasters, November 13 2018.
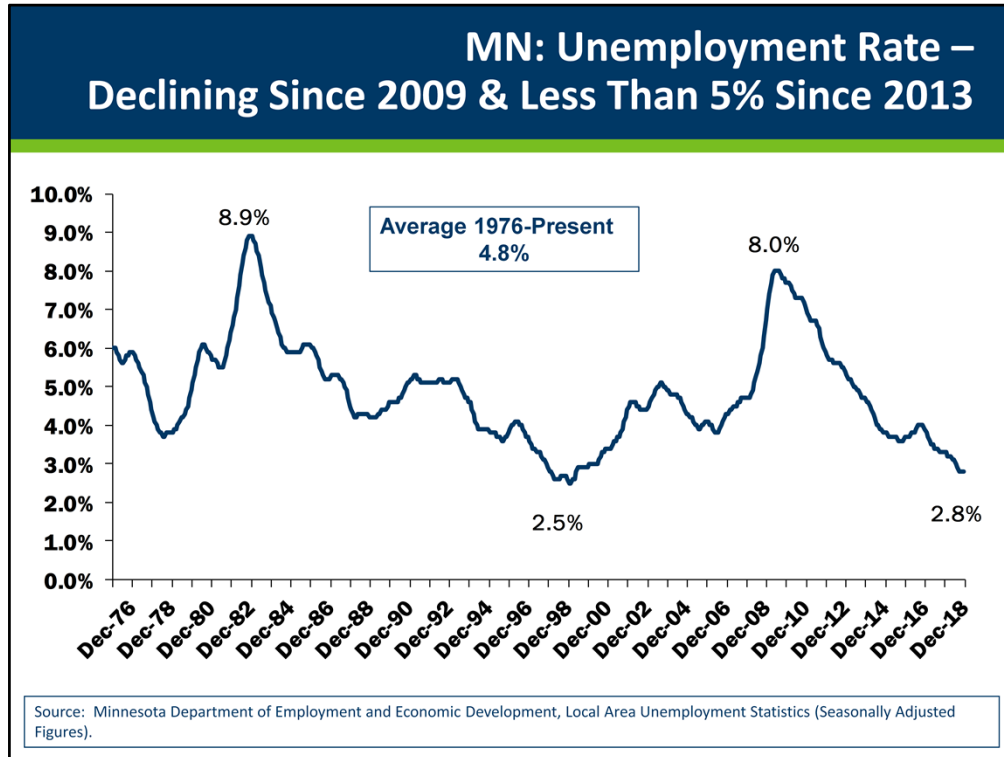
The economy plays a key role in the housing market. This graph shows the growth rate of the U.S. economy (as measured by Gross Domestic Product or GDP) and the unemployment rate. The solid lines on the left side are actual rates through the 4th quarter of 2018. The dashed lines on the right reflect a forecast based on a survey by the Philadelphia Federal Reserve Bank of 37 economic forecasters.

Key Points:

- The GDP bottomed out during the 4th quarter of 2008 with an annualized decline of 8.4%, which led to an unemployment rate reaching 10% in 2009.
- Economic growth since the recession has been modest and inconsistent.
- The forecast indicates that the economy will grow by 1.7% to 2.7% over the next few years with the national unemployment rate leveling off at or just below 4.0%.

Implications:

- The economy should continue to grow modestly.
- A stronger economy typically (1) increases incomes, (2) increases the number of households being formed with less doubling up, and (3) reduces rental vacancy rates and months supply of homes for sale as additional households form, which leads to higher housing prices.
- A key question is whether economic growth will be strong and widespread enough to benefit lower-income households.
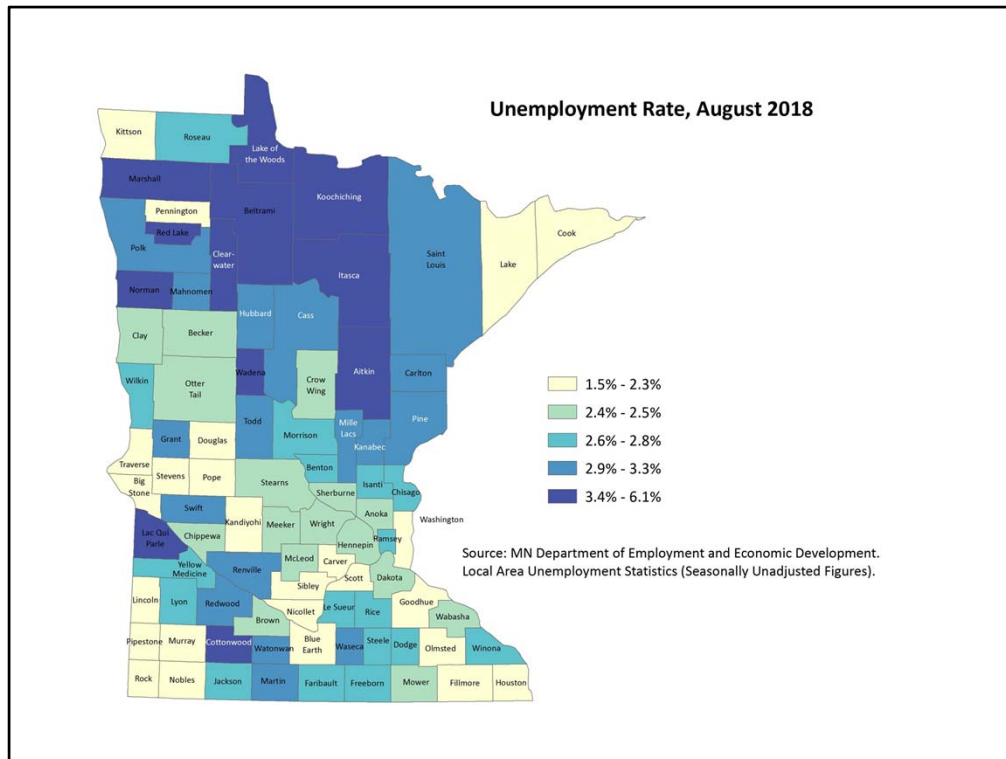
**MN: Unemployment Rate –
Declining Since 2009 & Less Than 5% Since 2013**

Average 1976-Present
4.8%

8.9%

8.0%

2.5%

2.8%

Source: Minnesota Department of Employment and Economic Development, Local Area Unemployment Statistics (Seasonally Adjusted Figures).

This graph shows the unemployment rate in Minnesota.

Key Points:

- The employment situation is a little better in Minnesota than nationally (2.8% versus 3.7%)
- After peaking during the Great Recession at 8.0%, Minnesota's current unemployment rate is down to 2.8%, which is well below the historical average.

Implications:

- How will the state's low unemployment rate affect income growth?

Unemployment Rate, August 2018

Legend:
- 1.5% - 2.3%
- 2.4% - 2.5%
- 2.6% - 2.8%
- 2.9% - 3.3%
- 3.4% - 6.1%

Source: MN Department of Employment and Economic Development. Local Area Unemployment Statistics (Seasonally Unadjusted Figures).

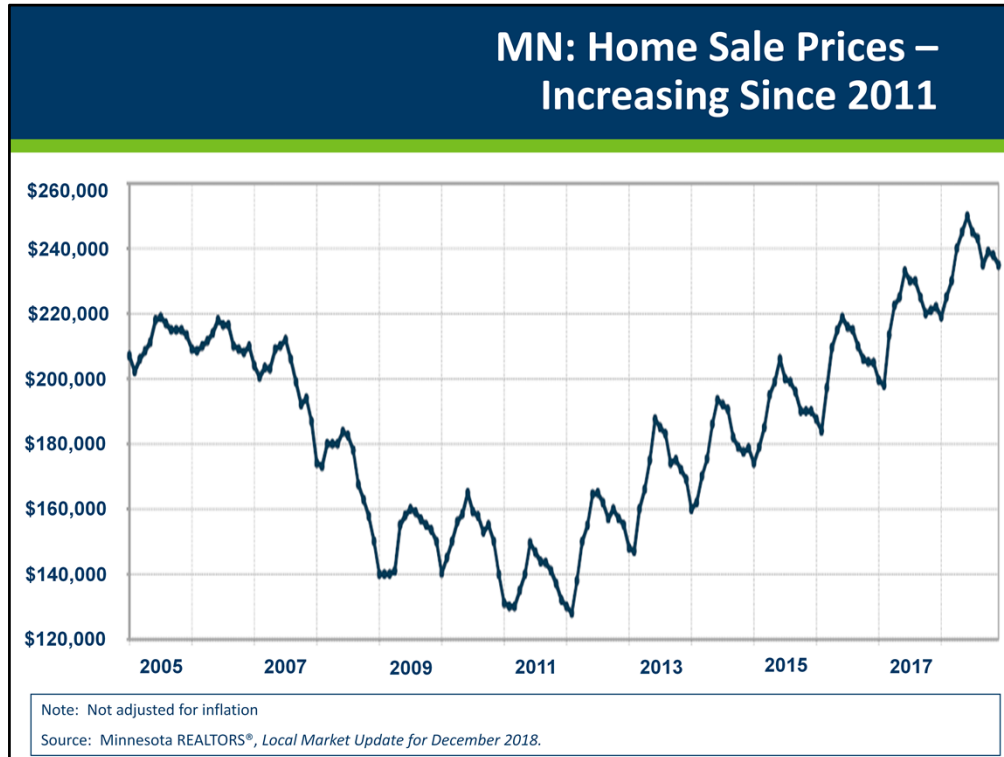This map shows the unemployment rate in each county.

Key Points:

- The unemployment picture varies significantly around the state – ranging from 1.5% to 6.1%, with the highest rates in north central and northwest Minnesota and the lowest in the southern half of the state.

Implications:

- Minnesota is not monolithic. Different parts of the state have very different economic conditions and housing needs.
- Some parts of the state have significant room for improvement.

Issue/Trend #5

Home Prices Will Likely Continue to
Increase with a Limited Supply

**MN: Home Sale Prices –
Increasing Since 2011**

Note: Not adjusted for inflation

Source: Minnesota REALTORS®, *Local Market Update for December 2018.*

This graph shows the median sales price for homes in Minnesota, not controlling for inflation.

Key Points:

- Statewide, prices dropped significantly from 2006 through 2009 and struggled through 2011, when they bottomed out.
- Prices have been steadily increasing since early 2012.

Implications:

- On the one hand, rising property values help existing homeowners because they add equity and create wealth. This is particularly important for lower-income homeowners because their homes are often their primary asset.
- On the other hand, rising property values makes housing less affordable for people moving into homeownership.

MN: Months Supply of Homes for Sale – Well Below 5 Months in Recent Years

Source: Minnesota REALTORS®, *Local Market Update for December 2018.*
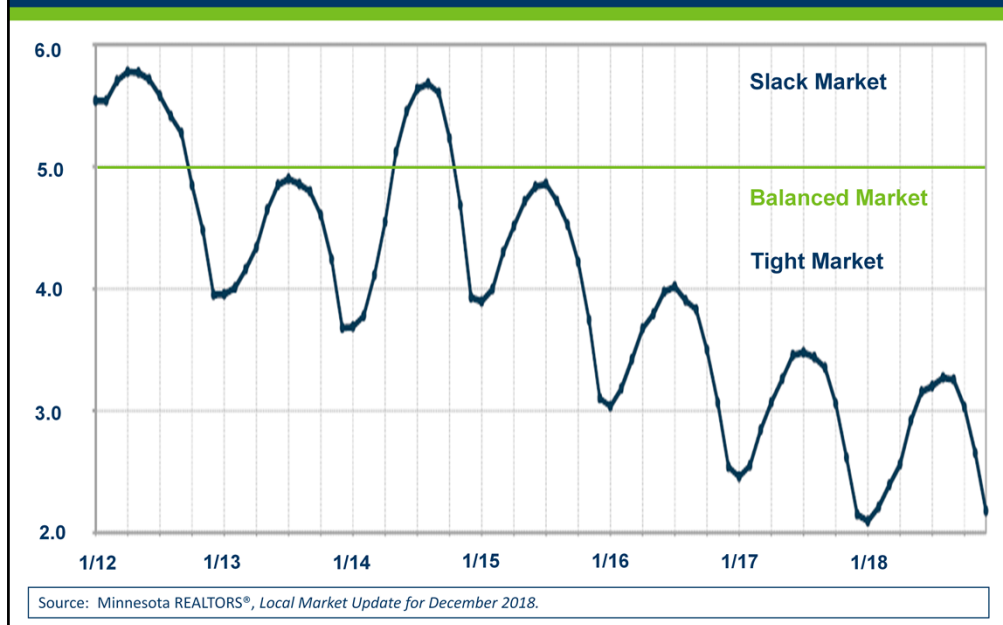
One of the best indicators of home price trends is the months supply of homes for sale, which is a combination of the current inventory and how fast homes are selling. It measures how long it would take to clear the current inventory. Generally, if the inventory is more than five months, it is a slack or buyer's market with prices declining; if the inventory is less than five months, it is a tight or seller's market with prices rising.

Key Points:

- Statewide, the months supply has been at or below five months in recent years, which has resulted in the rising prices.

Implications:

- With the statewide months supply currently near two months, prices will likely continue to increase.

TC Metro (16 County): Months Supply of Homes for Sale Under $250,000 – Very Tight Market

Year	Inventory - Number of Homes (June)	Months Supply (June)
2013	9,378	3.2
2014	9,413	3.5
2015	8,004	2.9
2016	6,107	2.1
2017	4,401	1.6
2018	3,101	1.3

Source: Minneapolis Area Association of REALTORS®

This table shows the inventory and months supply of homes selling for less than $250,000 (which is a more affordable price) in the 16 counties in and around the Twin Cities metro area.

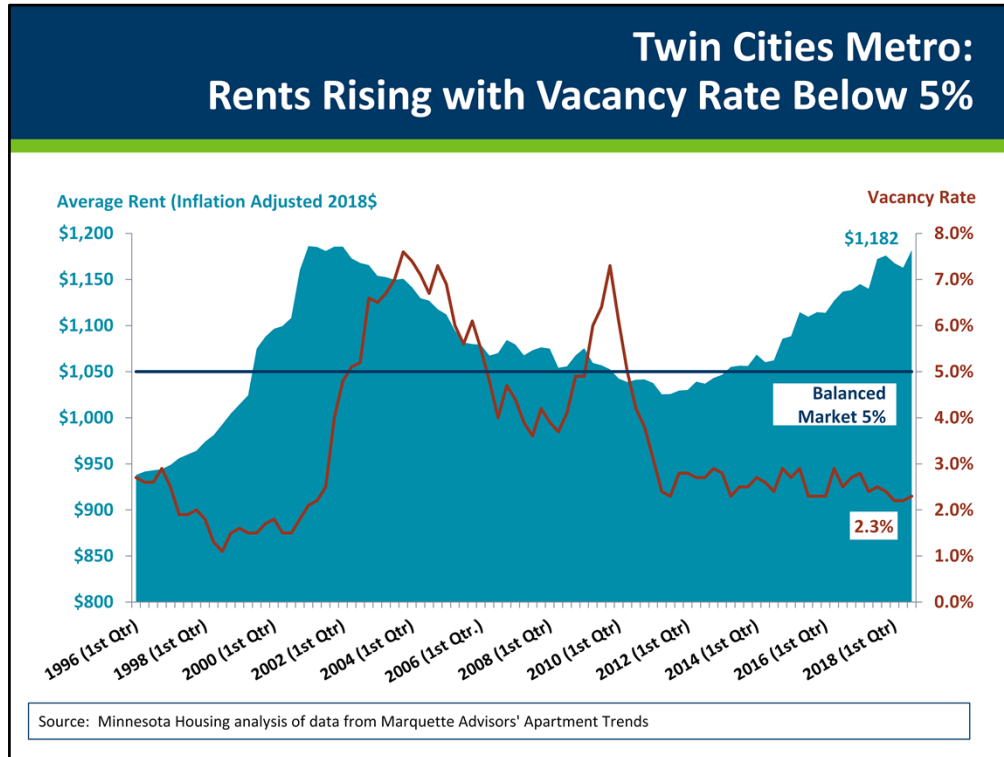For each year, the data applies to the month of June, which is a prime home buying month.

Key Points:

- In 2018, the inventory and months supply were only 1/3rd of what they were in just 2014.

Implications:

- There is a very limited supply of affordable homes.

Issue/Trend #6

Rents Will Likely Continue to Increase
with a Limited Supply

**Twin Cities Metro:
Rents Rising with Vacancy Rate Below 5%**

Source: Minnesota Housing analysis of data from Marquette Advisors' Apartment Trends
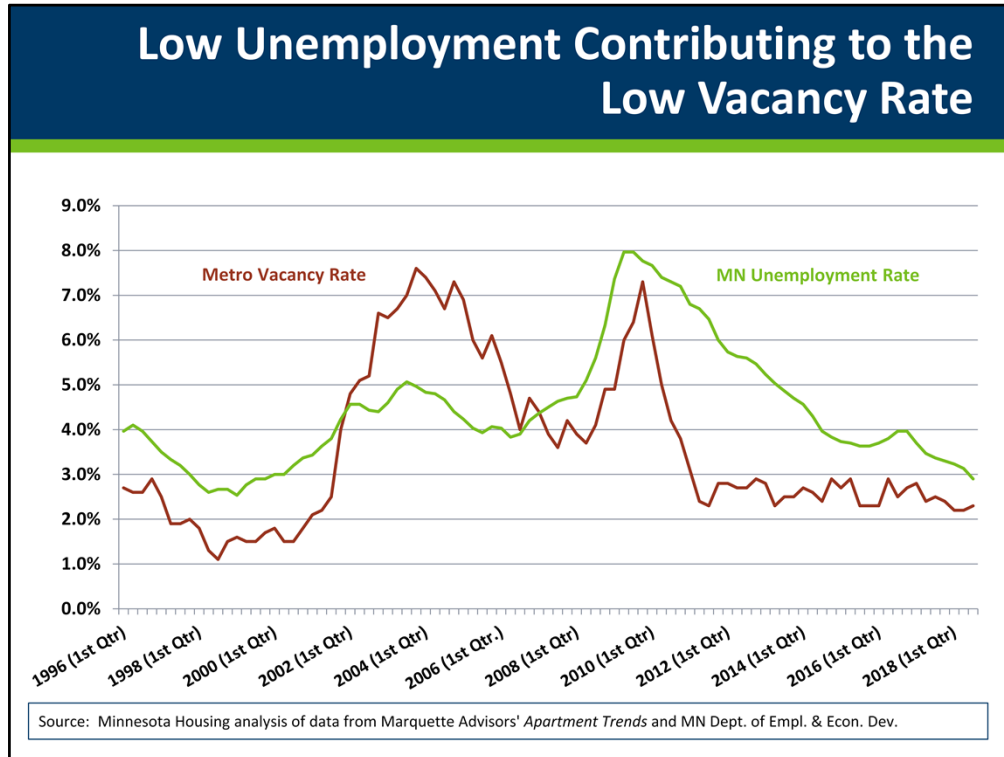
Switching to the rental market, this graph shows the relationship between vacancy rates and rents. Low vacancy rates drive up rents. This data just applies to the Twin Cities metro area, which has more complete and detailed data.

Key Points:
- When the vacancy rate (the maroon line) is consistently below 5% (the dark blue horizontal line), rents (the light blue shaded area) generally rise because the supply is limited relative to demand.
- When the vacancy rate is consistently above 5%, rents generally fall because there is extra supply relative to demand.
- Since 2011, vacancies have been consistently below 5%, and rents have increased.

Implications:
- As long as vacancy rates stay consistently below 5%, rents will likely rise.
- As we will discuss in the next few slides, the vacancy rate depends on the strength of the economy and its impact on job and household growth, households deciding to rent or own (as reflected in the homeownership rate), and new construction adding rental units to meet the demand.
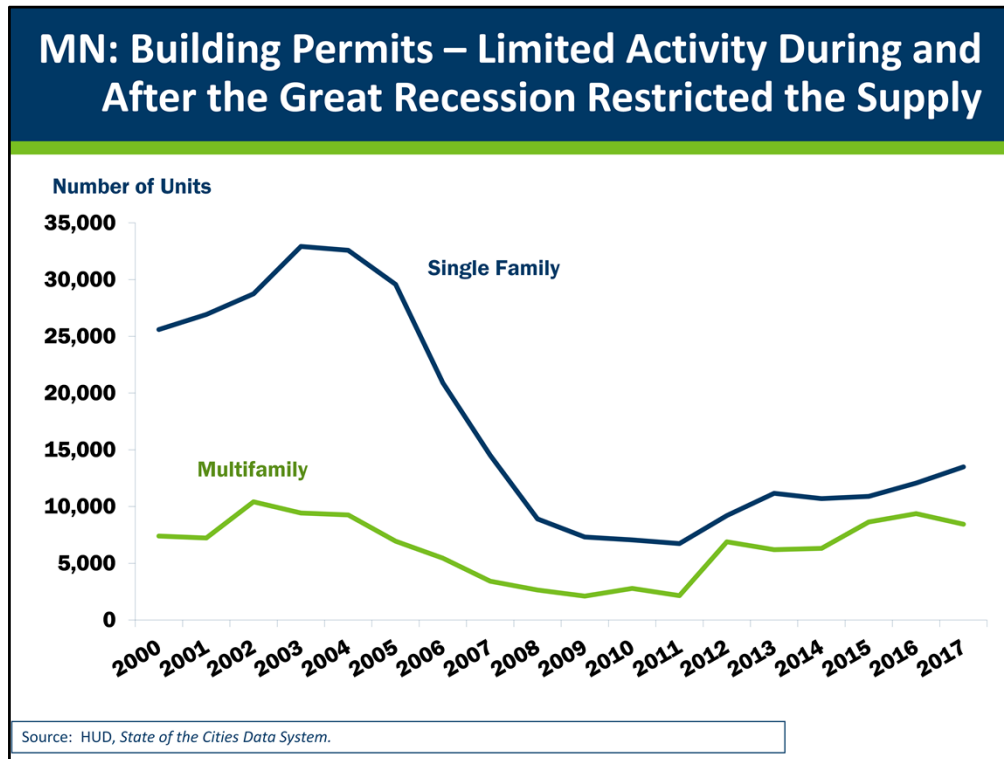
Low Unemployment Contributing to the Low Vacancy Rate

Source: Minnesota Housing analysis of data from Marquette Advisors' *Apartment Trends* and MN Dept. of Empl. & Econ. Dev.

This graph shows the relationship between unemployment and rental vacancy rates.

Key Points:

- When the unemployment rate is low, the vacancy rate tends to be low. When unemployment is high, the vacancy rate tends to be high. With employment struggles, we often see households doubling up and young adults living with their parents, which frees up rental units.

- The recession initially led to high vacancy rates in 2009. However, in 2010 and 2011, the vacancy rate rapidly declined when unemployment was still above 6%. Two factors contributed to this divergence.
  - o There was very little multifamily construction from 2007 through 2011, which limited the supply and decreased vacancies.
  - o The homeownership rate declined between 2006 and 2015, which increased the demand for rent housing and decreased vacancies.

Implications:

- Looking into the future, vacancy rates may start to increase.
  - o While the homeownership rate declined from 76% in 2006 to about 71% today (reflecting more renters), it appears to have leveled off, putting less downward pressure on the vacancy rate. (See page 25.)
  - o With low vacancy rates, developers are now building more units (see page 42), which will increase the supply and vacancies.

MN: Building Permits – Limited Activity During and After the Great Recession Restricted the Supply

Source: HUD, *State of the Cities Data System.*

With the Great Recession and financial crisis, there was very little housing construction.

Key Points:

- The annual number of multifamily permits dropped from 9,000-10,000 to 2,000-3,000 units. It has since increased to about 8,000 units in 2017. Data for 2018 is not yet available.

- The decline in single-family permits was even larger, with a very modest recovery. This has contributed to the lack of homes for sale. On the single-family side, we don't need to return to the levels seen in the early 2000s when the homeownership rate was higher and increasing, and we started to overbuild.

Implications:

- With the low vacancy rates and increased demand for new units, multifamily construction has picked up and is back near the 2002-04 levels; however, we still have to fill the shortage created by the lack of production in previous years.

MN: Rental Units by Building Type – Almost Half Are in 1 to 4 Unit Buildings

Building Type	Number of Rental Units	Share of Rental Units
Single-Family Homes	176,405	29%
2 to 4 Unit Structures	75,315	13%
5+ Unit Structures	340,505	57%
Other (mobile homes, etc.)	9,900	2%
Total	602,125	100%

Source: Minnesota Housing analysis of HUD's 2011-15CHAS (Comprehensive Housing Affordability Strategy) data.

This table shows the stock of occupied rental housing in Minnesota by property size.

Key Points:

- Almost half of the state's rental stock is properties with 1 to 4 units, with many in single-family homes or mobile homes.

Implications:

- People often forget that smaller properties, including single-family homes, play a critical role in the rental market.

Issue/Trend #7

Minnesota Needs to Develop 300,000 New Housing Units of All Types and Price Points by 2030, with a Focus on Affordable

Minnesota Needs 300,000 New Housing Units of All Types and Price Points by 2030

Housing Units

The New Homes Will Address:
- ☐ Rental Supply Shortage = 15,000
- ☐ Ownership Supply Shortage = 39,000
- ☐ Rental Household Growth = 93,000
- ■ Ownership Household Growth = 153,000

2017 Construction = About 21,000

(Chart showing housing units from 2019 to 2030, with values ranging from 40,000 at top to 0 at bottom, years 2019–2030 on x-axis)
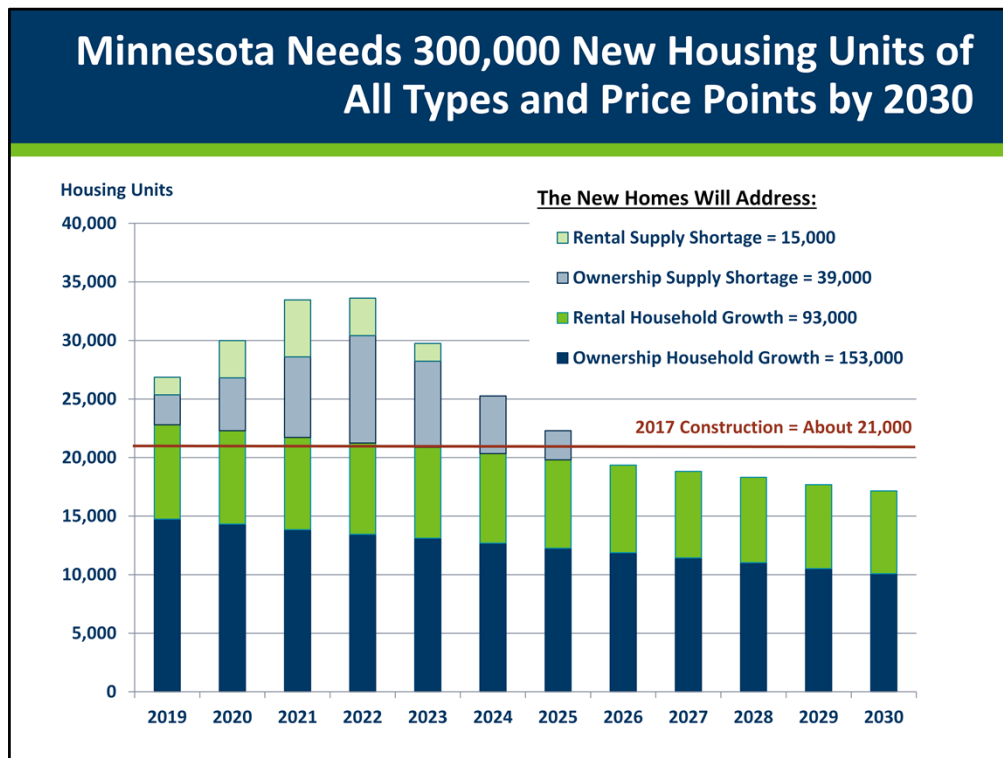
This graph was created for Governor Dayton's Task for on Housing and shows the number of new housing units Minnesota needs from 2019 through 2030 for all types and price points. The estimate has two pieces:

- Solid Portion of the Bars – New units that will house a growing number of households in Minnesota and replace demolished or abandoned homes. The blue portion shows the owner-occupied part of the need and the green shows the rental part.

- Hatched Portion of the Bars – New units that will address the current shortage of housing, specifically, bringing the rental vacancy rate up to 5% in every market in the state and bringing the months supply of homes for sale up to 5.5 months across the state. The increase in production is phased in and then out over seven years in the graph (for illustrative purposes), but the quicker the shortage can be filled the better.

Key Points:
- Minnesota will need 300,000 new housing units from 2019 through 2030 (the sum of the twelve bars).
- About 21,000 units are currently being produced in Minnesota annually.
- Current production is about the amount that is needed to address household growth and the loss of existing units (the solid portion of the bars).
- The state needs about 54,000 units in total to eliminate the current housing shortage (the sum of the hatched portion of the bars). If this is done over five to seven years, we would need to produce on average roughly 10,000 additional units each year above current levels, which is about a 50% increase.

Implications:
- Increasing housing production by 50% for the next 5 or so years will take a broad based partnership, including the private, non-profit, and public sectors.
- This graph does not address the affordability of the units. Because about 28% of renter households in Minnesota have incomes at or below 30% of the area median income, at least 28% of the new rental units should be affordable at this income level. Currently, only about 1% of new rental units are affordable at this level.

Issue/Trend #8

Minnesota Has A Large Stock of Affordable Housing that Needs to be Preserved, and We Losing Housing that is Naturally Affordable

Preserving Housing with Federal Rent Assistance is a Critical Issue

- Minnesota has nearly 56,000 housing units where rent assistance is tied to the units:

    - 30,000 project-based Section 8,

    - 6,000 USDA Rural Development Section 515, and

    - 20,000 Public Housing

- Most properties were developed before 1980.

- Many have capital improvement needs and limited reserves to pay for them.

- With their rent assistance, preserving federally subsidized units is critical.

Implications:

- While the State of Minnesota needs to preserve all types of affordable housing, preserving units with federal rent assistance is critical. The rent assistance provided through the units ensures that tenants pay no more than 30% of their income on rent.

Preserving Other Affordable Housing, Including Naturally Occurring is Also Important

- In total, Minnesota has roughly 350,000 rental units that are affordable to households with incomes at or below 50% of AMI

- Of those:

  o About 56,000 have federal rent subsidies (including public housing)

  o Another 60,000 are affordable through other income or rent restrictions (including Low-Income Housing Tax Credit units)

  o Roughly 230,000 are naturally affordable , which are typically affordable because they are dated, lack modern amenities, and/or need repairs or rehabilitation.

    - **Annually, MN is losing about 2,000 naturally occurring affordable housing (NOAH) rental units when they are sold, rehabilitated, and have the rents increased.**

Preservation of other rental units also needs to be addressed.

Key Points:

- While project-based rental subsidies are key because they provide the deepest subsidies, preserving other affordable units is also important.
- Of Minnesota's roughly 350,000 rental units that are affordable for households with incomes at or below 50% of AMI:
  - Just over 56,000 are affordable through project-based rent subsidies (including public housing).
  - Another 60,000 are affordable through other income or rent limits.
  - Roughly 230,000 are naturally affordable without income or rent limits.
- Many of the naturally affordable units are affordable because they are dated, lack modern amenities, and/or need repairs or rehabilitation. In markets with low vacancy rates and rising rents, these properties are at risk of being sold and upgraded and then have their rents increased so they are no longer affordable. In a recent analysis, using data from CoStar, we estimated that Minnesota is losing about 2,000 NOAH units each year after the sale of the property.

NOAH Properties Lost After Sale & Rent Increases

Map 2: Market Rate Properties that Lost Affordability (2010 - 2017)
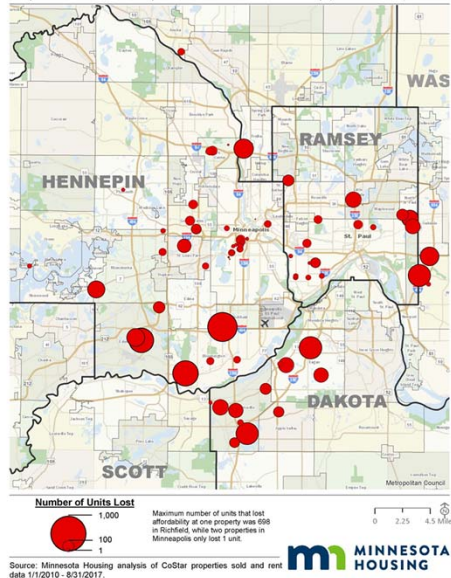
Map 4: Number of Market Rate Units Naturally Affordable
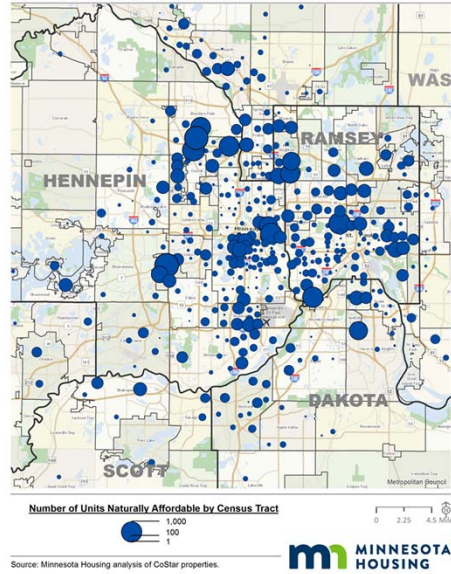
Source: Minnesota Housing analysis of data from CoStar.

These maps show NOAH rental properties in the metro area.

- The map on the left (with the red dots) shows the NOAH rental properties that have been lost due to a sale and rent increase between 2010 and 2017.

- The map on the right (with the blue dots) shows NOAH rental properties after 2017.

The size of the dot represents the number of units in the property. The larger the dot, the more units.

Key Points:

- We have already lost a large number of NOAH properties, but there is a lot more to preserve.

- We have already lost all the large NOAH rental properties to the south of Minneapolis and St. Paul. The largest red dots on left map (lost NOAH properties) are all south of Minneapolis and St. Paul. There are no large blue dots on right map (current NOAH properties) south of Minneapolis and St. Paul.

Implication

- Because about 2/3rds of the Minnesota's affordable housing is affordable without government subsidies and the income or rent restrictions that come with it, preserving NOAH units is also critical. These rental units are often affordable because they are typically dated and have repair needs. Consequently, they need some rehabilitation, but we need to do that and keep the affordability.

Value of Existing Owner-Occupied Housing in MN – Less than $100,000 Homes Likely Need Rahab

Value	Share of Existing Homes in Statewide
$100,000 and Under	18.9%
$101,000 to $250,000	53.5%
$251,000 to $350,000	14.5%
Over $3350,000	13.1%

In 2017, only 6% of homes that sold in the 16 counties in and around the Twin Cities had a sale price of $120,000 or less

Source: Minnesota Housing analysis of data from the U.S. Census Bureau's American Community Survey (2016 1-Yr Sample); Sale prices data is from the Minneapolis Area Association of REALTORS

We also need to preserve owner-occupied housing.

This table shows the share of Minnesota's owner-occupied homes by their value.

Key Points:
- Almost 20% of the state's owner-occupied housing stock has a value of $100,000 or less, which is affordable. A family with a $30,000 annual income could afford to purchase a $100,000 home, assuming they have the resources to pay for the rehabilitation that the home likely needs.
- However, very few of these homes sell. In the 16 counties in and around Minneapolis and St. Paul, only 6% of the homes that sold in 2017 had a price of $120,000 or less. Selling a home for less than $100,000 can be difficult because its condition may be so poor that the home does not qualify for a mortgage.

Implications:
- Preserving this affordable stock is important, and there is a need for more mortgage products that allow for simultaneous purchase and rehabilitation.
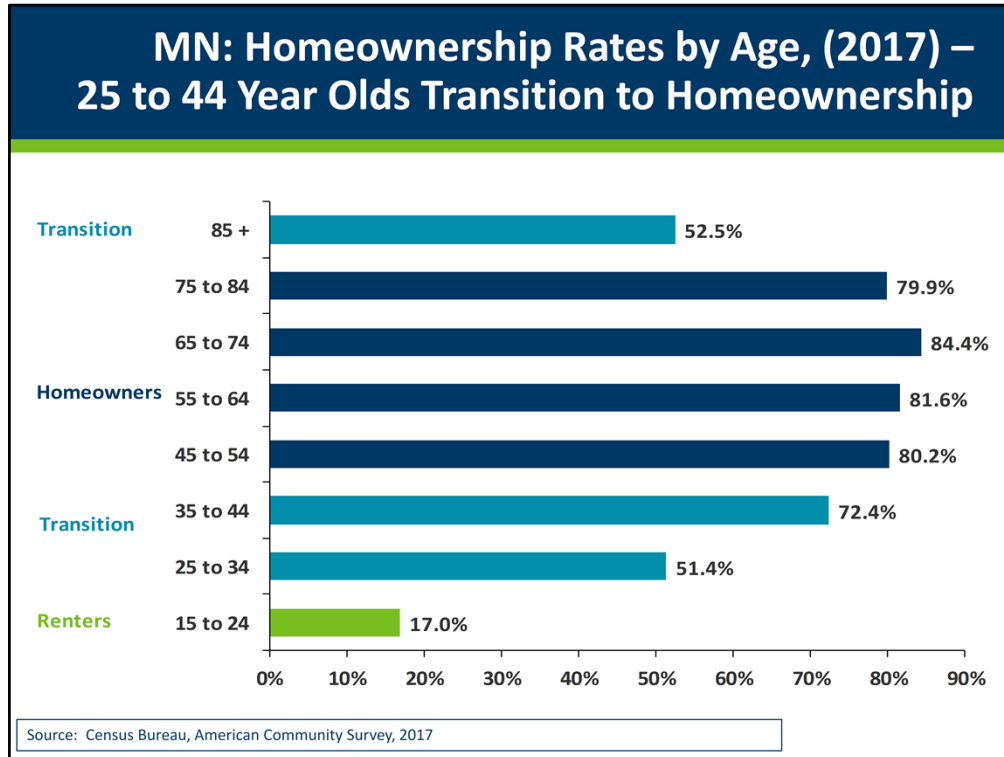
Issue/Trend #9

Millennials' Decision to Own or Rent Will be a Key Driver of the Housing Market

Millennials: Owning vs. Renting

- Definitions:
  - Millennials (or Generation Y) were born between 1981 and 1995.
  - Generation X includes people born between 1965 and 1980

- More Owning:
  - Generation Y (Millennials) is larger than Generation X, moving into the home buying phase of life, and expressing an interest in eventually owning
  - Homeownership is more affordable than in 2006 (home prices are increasing but interest rates are still low from a historic perspective)

- More Renting:
  - People may be still be cautious about homeownership after the housing crisis
  - Generation Y is likely to change jobs and locations – and not be tied down by homeownership (for now)
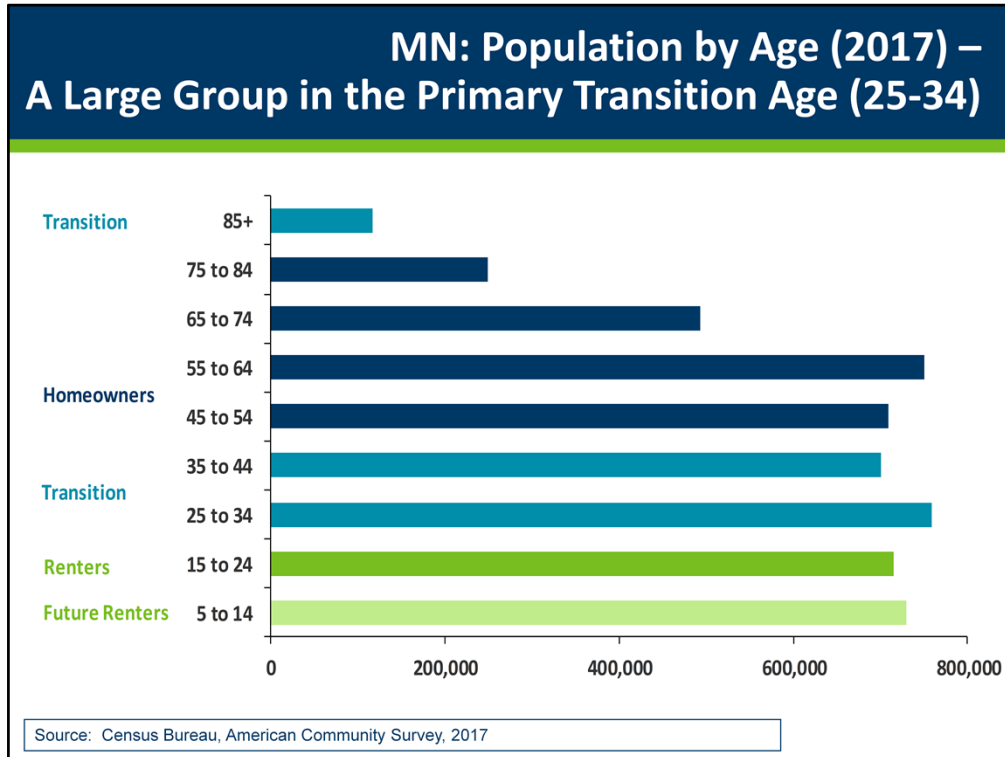 - Increasing levels of student debt

We will look at several of these factors in more detail in the following charts.

MN: Homeownership Rates by Age, (2017) – 25 to 44 Year Olds Transition to Homeownership

Category	Age	Rate
Transition	85 +	52.5%
	75 to 84	79.9%
	65 to 74	84.4%
Homeowners	55 to 64	81.6%
	45 to 54	80.2%
Transition	35 to 44	72.4%
	25 to 34	51.4%
Renters	15 to 24	17.0%

Source: Census Bureau, American Community Survey, 2017

This is a repeat of an earlier chart and shows the homeownership rate by age.

Key Points:

- Young single people who are in the less-stable and early stages of their careers and lives typically rent for affordability and flexibility reasons. (See ages 15-24 in this graph.)

- As families form and careers are established, households look for stability and transition to homeownership. (See ages 25 to 44 in this graph). The transition primarily occurs for 25 to 34 year olds, when the homeownership rate jumps from 17.0% to 51.4%. A smaller transition occurs for 35 to 44 year olds, with the rate increasing to 72.4%. Millennials may be delaying the transition. The median age of Minnesota Housing's first-time homebuyers increased from 27 in 2005 to 32 in 2018.

MN: Population by Age (2017) –
A Large Group in the Primary Transition Age (25-34)

Source: Census Bureau, American Community Survey, 2017

This graph shows the break out of Minnesota's 2017 population by age and the renter/owner phases.

Key Points:

- Demographics plays a role in the homeownership rate.
    - o The smallest working-age cohort is 35-44 year olds (largely representing Generation X). Over the last 10 years, this group moved through the initial and primary home-buying phase of life, and its small size limited the growth in homeownership.
    - o The largest age cohort is 25 to 34 year olds (largely representing Generation Y or Millennials). This large group is at the prime age for first-time homebuyers, which should help increase homeownership in the coming years.

Implications:

- Understanding the home-buying needs of the Millennial generation will be a critical strategy going forward.
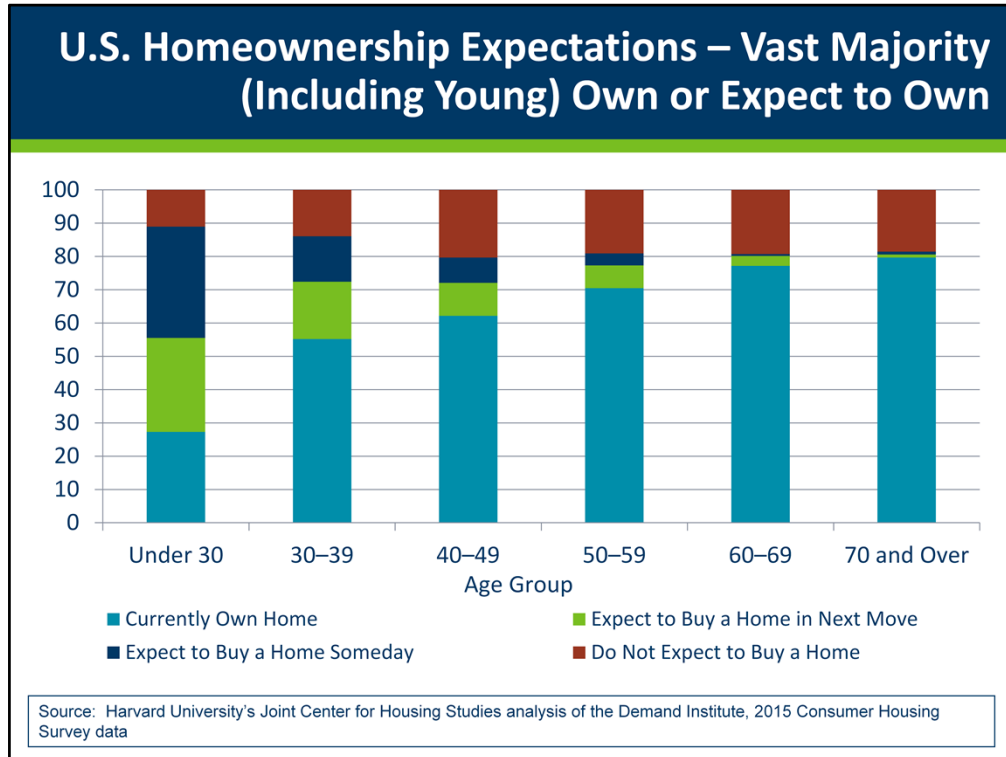
This graph shows homeownership status and expectations by age.

Key Points:

- 80% to 90% of Americans across all adult age groups own or expect to own their home.

Implications:

- Nearly 90% of Millennials expect to eventually own their home.

Twin Cities Metro: Owning Is Relatively More Affordable than in 2006

- **June, 2006:**
  - Median sale price — $236,850
  - Market interest rate — 6.68%
  - Monthly housing payments (PITI) — $2,006
  - Average monthly rent — $860
- **June 2011:**
  - Median sale price — $162,217
  - Market interest rate — 4.51%
  - Monthly housing payments (PITI) — $1,160
  - Average monthly rent — $921
- **June 2018:**
  - Median sale price — $270,500
  - Market Interest rate — 4.57%
  - Monthly housing payments (PITI) — $1,943
  - Average monthly rent — $1,164

Source: Minnesota Housing based on data from the Minnesota Association of REALTORS®, Freddie Mac, Minnesota Taxpayers Association, and U.S. Census Bureau. The average monthly rents come from Marquette Advisors. Figures are not adjusted for inflation.

The affordability of owning a home is a key factor that influences the homeownership rate.
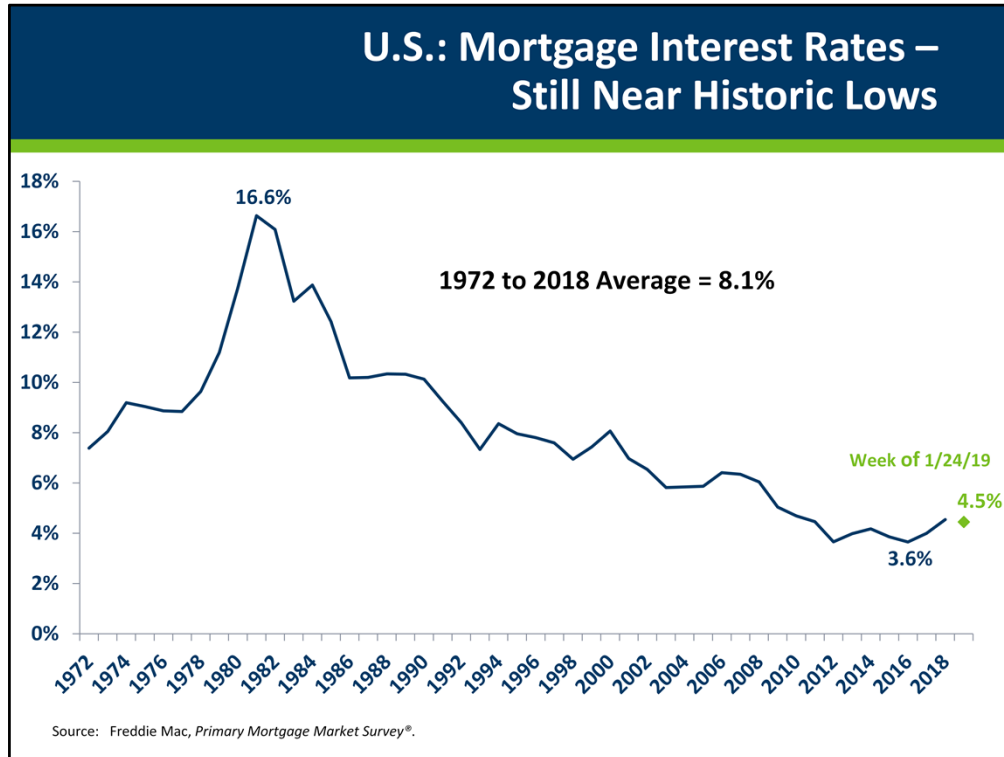
This slide shows the housing payment (including principal, interest, taxes & insurance or PITI) for the median priced home in June of 2006, 2011 and 2018 in the Twin Cities metro area. (The analysis examines the same month in each year because home sale prices fluctuate with the time of year, and we want consistency in the comparison. In addition, June is a prime home-buying month.)

Key Points:

- In 2006, the housing payment on a median priced home was $2,006 – more than $1,100 above the average rent for an apartment ($860). The cost differential probably contributed to the decline in the homeownership rate.

- By 2011 (with much lower prices and interest rates), the housing payment on a median priced home was down to $1,160 – just a couple hundred dollars more than the average rent ($921). The smaller differential probably contributed to the leveling off of the homeownership rate.

- By 2018 (with higher prices but interest rate remaining low), the housing payment was up to $1,943, which is about $780 more than the average rent ($1,164).

Implications:

- While buying a home is still more affordable than it was in 2006, the rising costs may limit home buying. If interests also rise, affordability will drop even more.

U.S.: Mortgage Interest Rates – Still Near Historic Lows

1972 to 2018 Average = 8.1%

16.6%

Week of 1/24/19
4.5%

3.6%

Source: Freddie Mac, *Primary Mortgage Market Survey®*.

Interest rates also play a key role in housing costs and affordability. The very low interest rates over the last several years have increased affordability and helped the housing market recover by encouraging home buying.
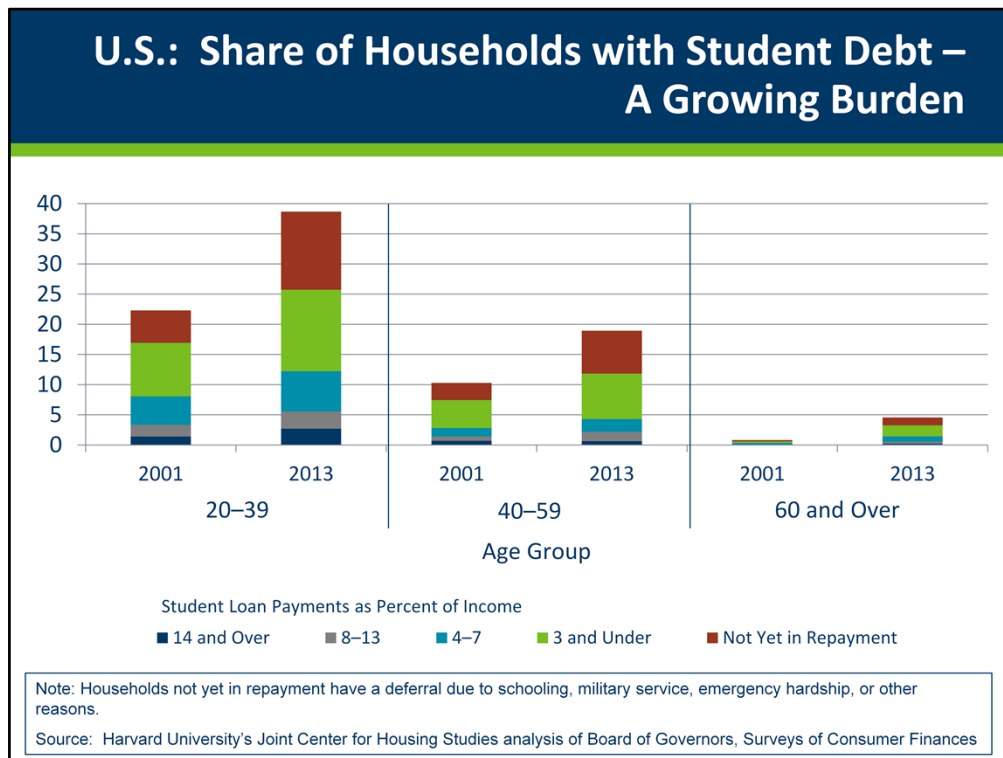
This graph shows mortgage interest rates since 1972.

Key Points:

- During this period, the average rate was 8.1%.
- The peak rate occurred in 1981 (16.6%).
- In recent years, the rates have reached their lowest levels, around 4%.
- Rates have increased a bit lately.

Implications:

- The current rates, which are still very low in historical terms, have made homeownership more affordable than it would have otherwise been.
- A key question is whether rates will increase?

U.S.: Share of Households with Student Debt – A Growing Burden

Student Loan Payments as Percent of Income

Note: Households not yet in repayment have a deferral due to schooling, military service, emergency hardship, or other reasons.

Source: Harvard University's Joint Center for Housing Studies analysis of Board of Governors, Surveys of Consumer Finances

This graph shows student debt status by age in 2001 and 2013. The data is a little dated but provide important information.

Key Points:

- The share of people with student debt has increased significantly across all age groups, nearly doubling from just over 20% in 2001 for 20-39 year olds to almost 40% in 2013.

Implications:

- Student debt levels are limiting homeownership. Underwriting standards include stricter debt-to-income requirements to qualify for a mortgage. For example, debt payments (including mortgage, student loans, car loans etc.) typically cannot exceed 43% of income.
- If a mortgage payment would account for 30% of a potential homebuyers income, student debt payments along with a car loan can put someone over 43%.

Successful Homeownership Is Beneficial

- Research has found that:

  o Each year of successful homeownership increases household wealth by $9,500 on average.

  o Renters do not generally experience gains in wealth.

- Additional homeownership also frees up affordable rental units, effectively increasing the supply.

  o Of the 114,00 rental units in MN that are affordable to households with an incomes <= 30% of AMI, 28,500 are occupied by renter households with incomes > 50% of AMI (and potentially ready to buy a home).

  a. Christopher E. Hebert, Daniel T. McCue, and Rocio Sanchez-Moyano, *Is Homeownership Still an Effective Means of Building Wealth for Low-Income and Minority Households? Was it Ever?* (Harvard University, Joint Center on Housing Studies, HBTL-06, September 2013) pp. 2 and 45-47. The results are from 1999 to 2009, which was a less-than-ideal period involving a housing boom and bust. Rental data is from HUD CHAS data for 2011-15.
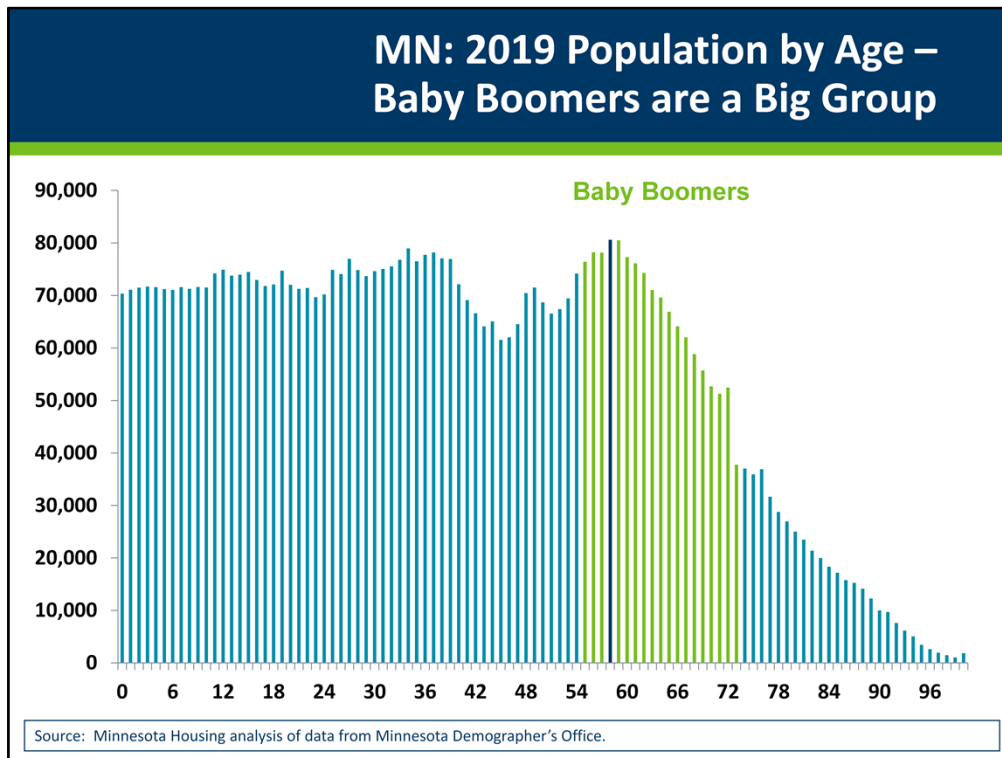
Homeownership is a powerful tool.

- While research has found that renters generally have very limited gains in wealth, successful homeowners have seen large increases in their wealth, even in the less-than-ideal time of 1999 to 2009, which included a housing boom and bust.

- For many lower-income homeowners, their home is their primary source of wealth.

- Transitioning low- and moderate-income households to successful homeownership also frees up affordable rental units. As discussed earlier, the decline in Minnesota's homeownership rate contributed to our low rental vacancy rates and increasing rents.

Implications

- Promoting and supporting successful homeownership supports not only homeowners, but also renters.

Issue/Trend #10

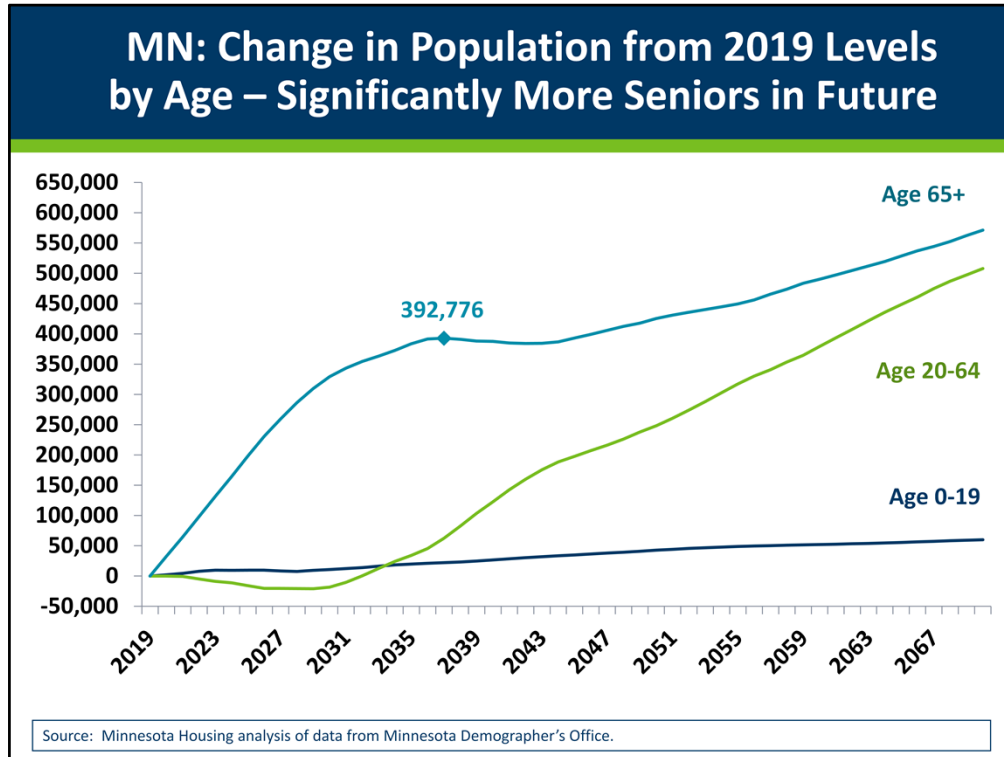The Aging Baby Boom Generation will Create New Housing Needs and Challenges

MN: 2019 Population by Age – Baby Boomers are a Big Group

Source: Minnesota Housing analysis of data from Minnesota Demographer's Office.

This graphs shows the number of Minnesotans by age. The Baby Boomer generation is shown with the green bars.

Key Points:

- Baby Boomers are a large generation that is retiring, or will reach retirement age over the next decade.
- Most Baby Boomers are on the younger half of the generation, with 58 year olds as the largest group (see black bar).

Implications:

- The changing housing needs and preferences of the Baby Boomers as they retire and age will present new challenges for Minnesota.

MN: Change in Population from 2019 Levels by Age – Significantly More Seniors in Future

Source: Minnesota Housing analysis of data from Minnesota Demographer's Office.

This graph shows the number of additional people in each age group over the next 50 years. The number for each year is the increase (or decrease) from the base year of 2019. For example, the Demographer's Office is forecasting 392,776 more seniors (age 65+) in 2037 than there were in 2019.

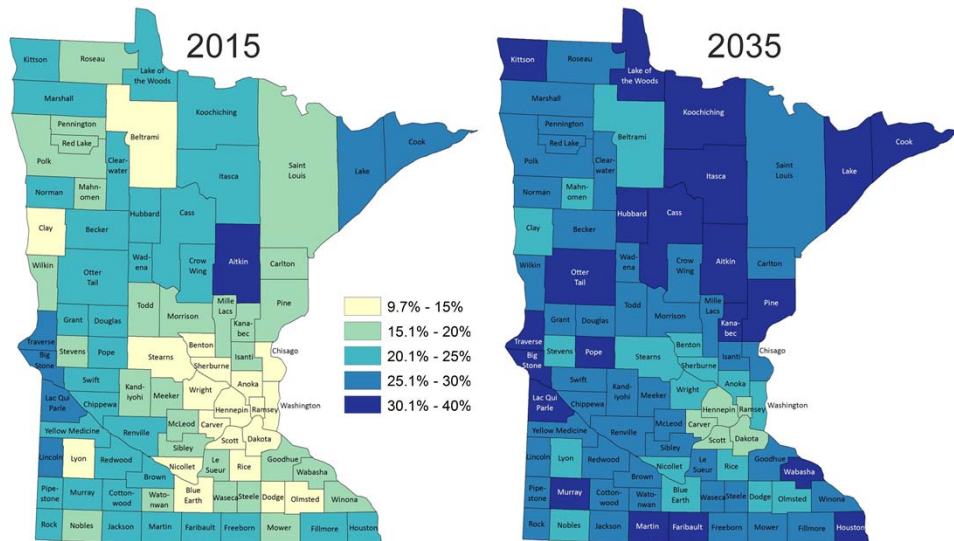As a point of reference, Minnesota currently have about 930,000 seniors.

Key Points:

• The senior population is increasing rapidly.

Implications:

• With limited resources, how do we address the affordable housing needs of this growing population and also address the needs of families with children and working-age adults without children?

This slide shows how the percentage of Minnesotans who are age 65+ in each county will change between 2015 and 2035.

Key Points:

- In 2035, seniors will account for more than 30% of the population in many counties, particularly in north central Minnesota and some the border counties around the state.
- Seniors will account for less than 20% of the population only in the metro area.
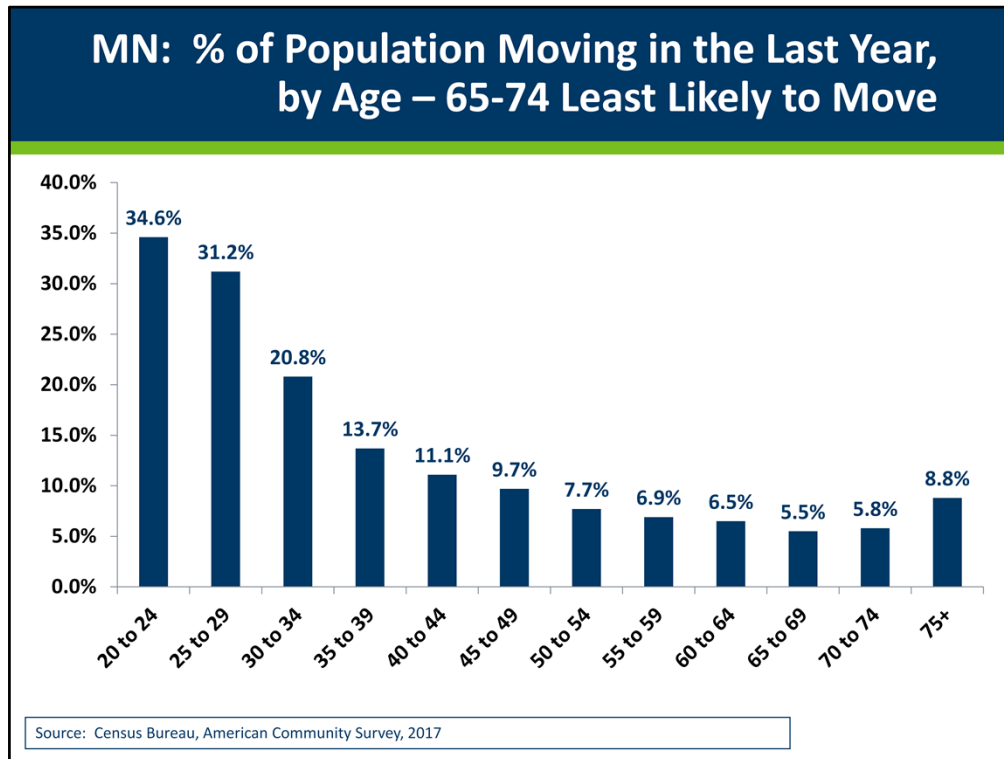
Key Findings about Baby Boomers

- Will play key role in dictating housing needs over the next couple of decades

- Healthier and more energetic than older seniors

- Pushing back retirement and entering life care facilities

- Want to stay in their communities

- Wants and needs:
  - Housing that is senior friendly, not necessarily senior housing
  - Access to services (e.g. health care and support) and amenities

This slide summarizes some the key findings in the literature about housing for seniors.

Implications:

- Minnesota will face challenges in providing housing to seniors that is: (1) affordable, (2) keeps them in the community as long as possible, and (3) provides adequate access to care, services, and amenities.

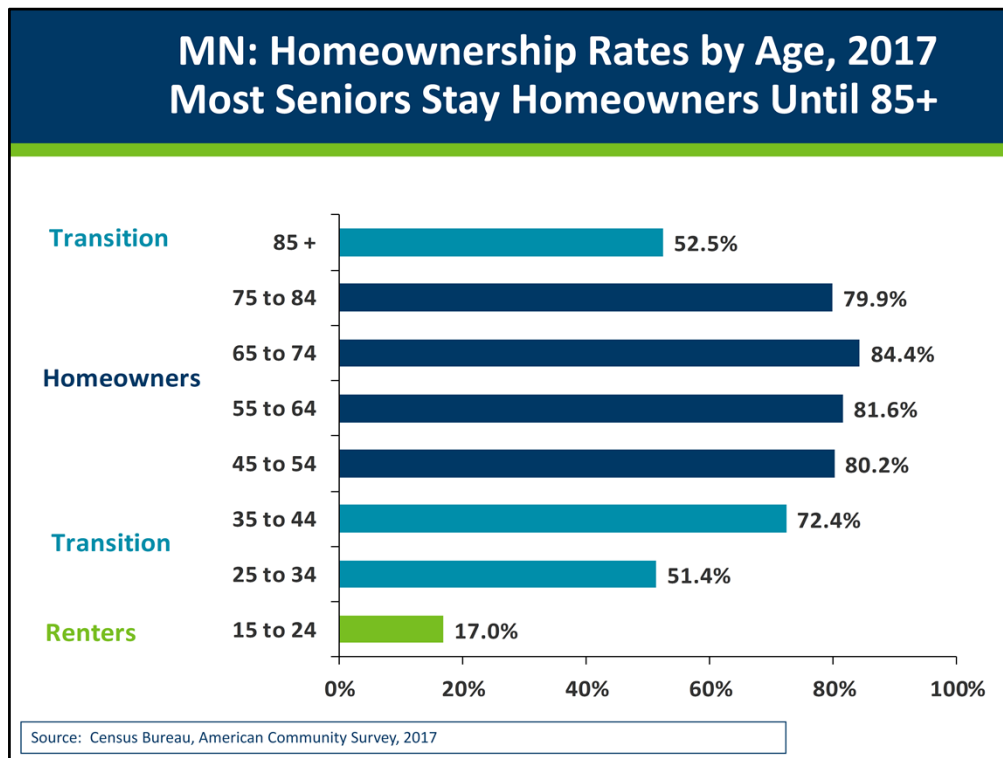- This will be particularly challenging in rural areas.

MN: % of Population Moving in the Last Year, by Age – 65-74 Least Likely to Move

Source: Census Bureau, American Community Survey, 2017

This slide shows the percentage of people by age group that moved in the last year.

Key Points:

- People age 65 to 74 are the least likely to move, only 5.5% to 5.8% move each year.
- Moving picks up after age 74.

Implications:

- In initial retirement, seniors are very likely to stay where they are currently living.
- Serving Baby Boomers in their current housing should be our initial priority. Baby Boomer are currently between the ages of 55 and 73.

MN: Homeownership Rates by Age, 2017
Most Seniors Stay Homeowners Until 85+

Transition — 85 + — 52.5%
75 to 84 — 79.9%
65 to 74 — 84.4%
Homeowners — 55 to 64 — 81.6%
45 to 54 — 80.2%
Transition — 35 to 44 — 72.4%
25 to 34 — 51.4%
Renters — 15 to 24 — 17.0%

Source: Census Bureau, American Community Survey, 2017

This graph of the homeownership rate by age is a repeat from an earlier graph, but this time we are focusing on the transition out of homeownership by older Minnesotans, rather than the initial transition into it by young adults.

Key Points:

- While there is a slight decrease in homeownership after age 74, a large decline occurs at age 85+.

Implications:

- This is consistent with the data on moving rates. People start to move after age 74, but most seniors do not transition out of homeownership until age 85 or later, which is consistent with increasing rates of disability among older seniors and the inability to live independently.

	MN: Majority of Low-Income Seniors are Homeowners	
	Homeownership Rate for Households with Incomes <= 50% of Statewide Median (adj. for household size)	**Homeownership Rate for Households with Incomes <= 30% of Statewide Median (adj. for household size)**
Senior Households	**64%**	**53%**

Source: Minnesota Housing analysis of data from Census Bureau, American Community Survey, 2015, Public Use Microdata Sample (PUMS). Median income data from HUD.

This table shows homeownership rates for households with incomes at or below 50% of the statewide median family income, and also at or below 30%.

Key Points:

- 53% of senior households with income at or below 30% of the statewide median are homeowners.

Implications:

- As this table and the previous graphs show, homeownership should be an initial priority:
  - Most seniors (including low-income) are homeowners,
  - Most seniors remain homeowners until at least ages 75 to 84, and
  - In 2019, 60% of Baby Boomers are still under age 65.

- If current living patterns continue, the largest group of Baby Boomers won't be transitioning from homeownership to renting for at least another 10 years. What will be the housing needs of these lower-income homeowners? Will it be home repair and maintenance? Will it be the installation of accessibility features to the home? Will it be access to home- and community-based services?

- Nevertheless, the number of senior renters will also be increasing each year. Rental housing with services will become more and more important over time. Starting with the most recent bonding bill, senior rental housing is an eligible use of Housing Infrastructure Bonds, which should help address the need for more senior rental housing.

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Rehabilitation Needs of Extremely-Low-Income Senior Homeowners in MN

- 16,400 households have home rehabilitation needs to remain in their homes for the next five years – For example:
    - New water heater   27%
    - New windows   25%
    - New roof   21%
    - Grab bars or hand rail 21%
    - Shower at floor level 20%
- On average, nearly $16,000 of work per home
- $250 million of rehabilitation needs over the next five years (or $50 million annually)
- 12,000 of these households also have unmet home and community based service needs

Source: Wilder Research, *An Assessment of Home Renovation and Rehabilitation Needs of Older Adult Homeowners in Minnesota,* December 2016

</div>

But aging in place is still a priority. In 2016, Minnesota Housing and the Department of Human Services worked with Wilder Research to assess the home rehabilitation needs of senior homeowners with incomes at or below 30% of the area median income, who are a primary customer of Minnesota Housing's Rehabilitation Loan program.

Key Points:

- There are roughly 16,400 extremely-low-income senior homeowner households in Minnesota that have rehabilitation needs to stay in their home for the next five years.
- About $50 million is needed annually to meet these needs.

Implications:

- Like most affordable housing needs, there are insufficient resources. For example, the Rehabilitation Loan Program has an annual budget of $9 million.
- Without home rehabilitation and adequate in-home services, seniors may have to choose more expensive housing options, such as assisted living or nursing homes

Key Issues and Trends

1. Minnesota Needs More Affordable Housing with a Large Share of Households Cost Burdened by their Housing

2. Many Minnesotans Struggle with Housing Instability, Most Notably People Experiencing Homelessness

3. Minnesota is Becoming More Diverse, and We Have Unacceptable Disparities

4. The Economy Is Expected to Continue Growing Modestly, Hopefully Supporting Growth in Household Incomes

5. Home Prices Will Likely Continue to Increase with a Limited Supply

As a review, we list the 10 key issue and themes again.

Key Issues and Trends (continued)

6. Rents Will also Likely Continue to Increase with a Limited Supply

7. Minnesota Needs to Develop 300,000 New Housing Units of All Types and Price Points by 2030, with a Focus on Affordable

8. Minnesota Has a Large Stock of Affordable Housing that Needs to be Preserved, and We are Losing Housing that Is Naturally Affordable

9. Millennials' Decision to Own or Rent Will be a Key Driver of the Housing Market

10. The Aging Baby Boom Generation Will Create New Housing Needs and Challenges

For More Information

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